

World Economy Needs More Time to Grow, Baker Says

By Carl Gewirtz International Herald Tribune PARIS — U.S. Treasury Secretary James A. Baker 3d pleaded Wednesday for critics to give governments the time needed to implement their promises to set the world on a track for more balanced economic growth.

Barbie Quits Court, Will Boycott Trial

By Julian Nundy International Herald Tribune LYON — Declaring himself "an illegal hostage," Klaus Barbie said Wednesday he would boycott further proceedings in his trial for crimes against humanity and then left the courtroom to return to his cell.

The decision of the 73-year-old former SS captain, who was tried and sentenced to life in prison in 1981, to refuse to testify during the trial, which is being held in Lyon, France, is a major setback for the prosecution.

Kiosk Rebels in Sudan Down a Plane

NAIROBI (UPI) — Rebel forces in southern Sudan shot down an army Hercules C-130 transport plane carrying two platoons of government troops to the strategic garrison town of Wau, but no reports on casualties were given.

Special Report 'BIG BANG' FALLOUT

Six months after Big Bang, London's financial institutions, and their customers, are grappling with new systems and changing markets.

GENERAL NEWS Prime Minister Rajiv Gandhi Takes Over Punjab; 175 are Arrested in Crackdown

SCIENCE New research findings on the workings of prejudice. Page 7. BUSINESS/FINANCE U.S. retail sales inched up a meager 0.1 percent in April, the government reported. Page 17.



Foreign Minister Shimon Peres of Israel, after failing to obtain the necessary backing to dissolve the coalition government.

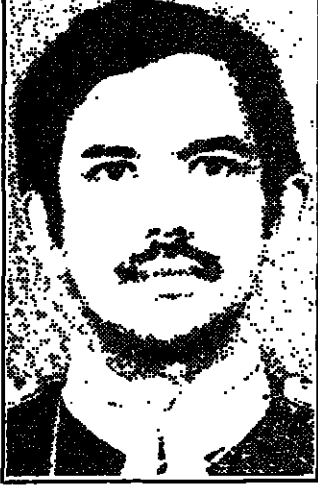
Peace Plan Stalls As Peres Fails on Necessary Votes

By Glenn Frankel Washington Post Service JERUSALEM — Israel's government was thrown into a deadlock on Wednesday after Foreign Minister Shimon Peres, lacking the votes to bring down the coalition if it did not support plans for an international peace conference, declined to submit the proposal to the policy-making "inner cabinet."

Executive Returns Sultan's \$10 Million Contra Gift

In Brunei, Not Much Worry Over the Wayward Donation

By Michael Richardson International Herald Tribune SINGAPORE — Nobody in the wealthy monarchy of Brunei seems to be worrying much about its wayward \$10 million donation to the cause of the Nicaraguan rebels, least of all Sultan Muda Hassanal Bolkiah.



Muda Hassanal Bolkiah

The cash deposited in a Swiss account for the contras is 'chicken feed for the authorities here.'

Funds Had Been Deposited In 2d Geneva Bank Account

By Thomas Netter International Herald Tribune GENEVA — A Geneva businessman who mistakenly received a \$10 million bank transfer earmarked for anti-government rebels in Nicaragua and then invested the money with another bank has voluntarily turned over the funds to the legal authorities here, officials said Wednesday.

Reagan Says He, Fahd Discussed Contra Aid

The Associated Press WASHINGTON — President Ronald Reagan said Wednesday that he discussed secret Saudi contributions to the Nicaraguan rebels in a private meeting with King Fahd in 1985, but he said the monarch was the one who raised the subject.

Japanese Assaults Hallowed U.S. Sports Mark

By Clyde Haberman New York Times Service TAKARAZUKA, Japan — On June 6 in Hiroshima — assuming rainouts, injuries or other imponderables do not interfere — a Japanese baseball player named Sachio Kinugasa will step onto the field and into the record book.

State Union Leads Strike In Croatia

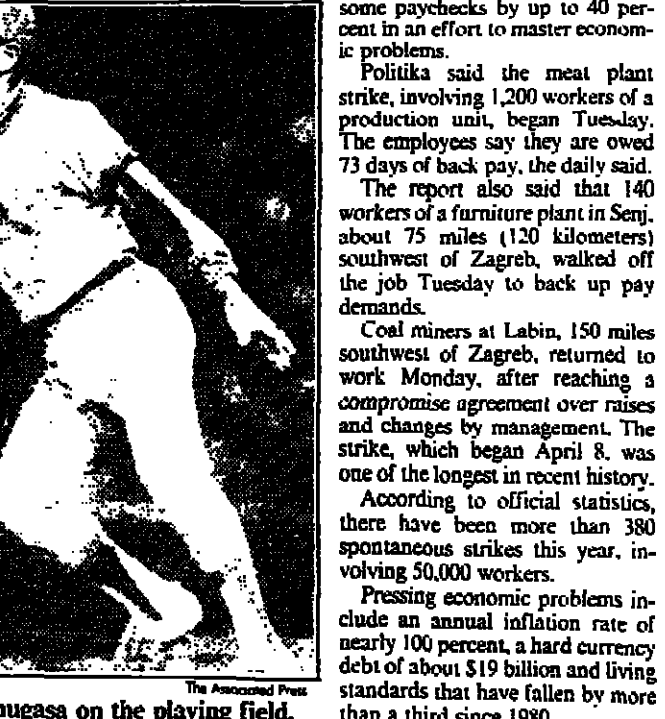
The Associated Press BELGRADE — Meat plant workers have walked off the job in Zagreb, the Politika newspaper said Wednesday, in the first known report of a strike organized by a union since Yugoslavia became Communist in 1945.

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Sachio Kinugasa on the playing field.

Enrile Charges Fraud As Aquino Candidates Near Sweep of Senate

United Press International
MANILA—Juan Ponce Enrile, the former defense secretary who is the chief rival of President Corason C. Aquino, on Wednesday accused candidates supported by the administration of using false ballots to win nearly all the Senate seats in the congressional election on Monday.

"Democracy was destroyed by people who made use of fake ballots," Mr. Enrile said at a protest rally near the government's Commission on Elections.

Supporters of Mr. Enrile's Grand Alliance for Democracy carried coffins and signs reading "Victory of gold, guns and goons — death of democracy." Some chanted "Down with Aquino" and "We were cheated."

Police said a home-made bomb was found at the election commission headquarters a few hours after the rally. It was defused by bomb disposal experts.

Mrs. Aquino's press secretary, Teodoro Benigno, denied the charges and said that the voting for the Senate and House of Representatives was in general honest and orderly.

Mr. Benigno said Mrs. Aquino's "commitment to honest elections is an article of faith. She can no more cheat in the polls than Queen Elizabeth can steal money from her chambersmaid."

Pro-Aquino candidates remained likely to win 23 of the 24 Senate seats as the percentage of ballots tabulated by the "quick count" of the National Citizens Movement for Free Elections reached 18.08 percent.

The official count, which was to begin Wednesday morning, was postponed because no ballots had reached the central tabulation office. Officials said they now expected the formal count to take 20 days.

Topping the unofficial count, with 7,736,983 votes, was Jovito Salonga, head of the presidential panel seeking to recover the wealth allegedly stolen by former President Ferdinand E. Marcos. Mr. Salonga was followed closely by the broadcasting star Orly Mercado and by Mrs. Aquino's brother-in-law, Agapito Aquino.

The senator who receives the most votes usually becomes the chamber president, a post that, traditionally, has been a springboard to the presidency.

Joseph Estrada, a former movie actor running 15th in the balloting, was the only member of Mr. Enrile's party who appeared to have won a Senate seat. Mr. Enrile was running 26th, with 1,541,364 votes.

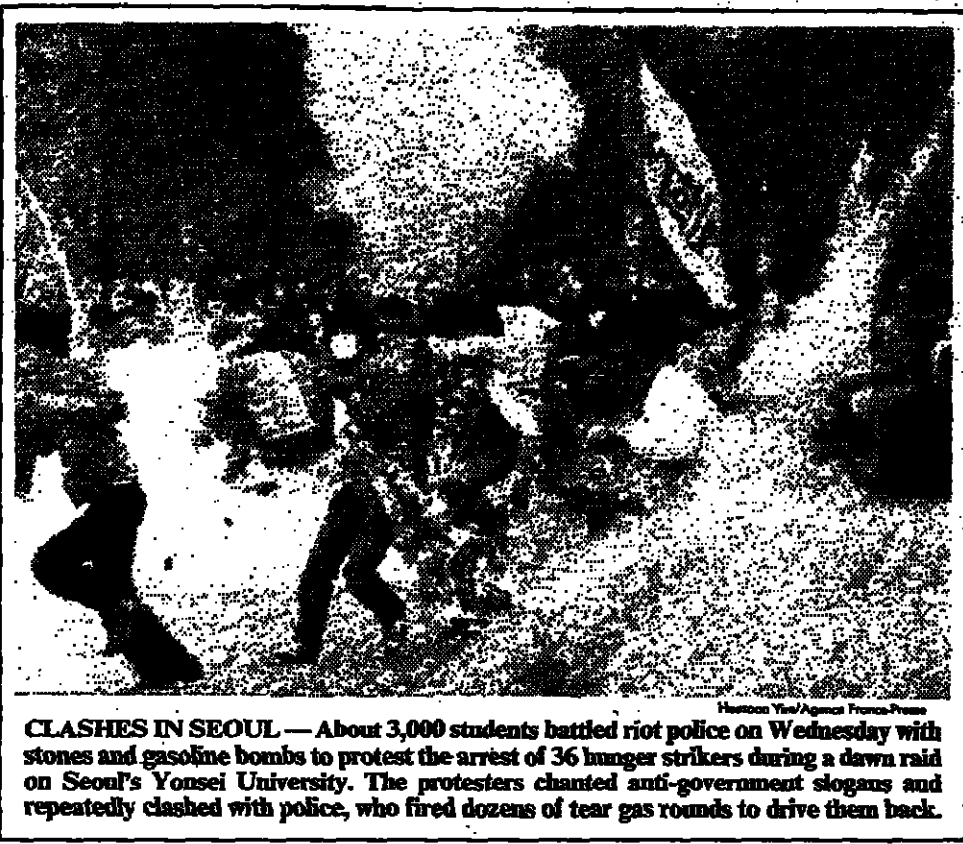
Aquino candidates led in 59 of the 200 House of Representatives districts, while the opposition led in 23 and independents in 13. No other results were available.

Mr. Enrile, who was fired by Mrs. Aquino in November after some of his aides were implicated in an aborted coup plot, earlier threatened a boycott of the Senate.

"If we cannot have an honest and clean election, I don't want to be a part of it," he said.

[Reuters, quoting the government television, reported that the secretary of defense, Rafael M. Bito, said that soldiers had been put on full alert because of plans by rightist groups to destabilize the government. No details were given.

[The state-run Philippine News Agency said Mr. Bito did not think Mr. Enrile would "resort to drastic action," but that the army was prepared to contain any threat.]



CLASHES IN SEOUL—About 3,000 students battled riot police on Wednesday with stones and gasoline bombs to protest the arrest of 36 hunger strikers during a dawn raid on Seoul's Yonsei University. The protesters chanted anti-government slogans and repeatedly clashed with police, who fired dozens of tear gas rounds to drive them back.

In Italy, a Political Fray Over Letter From Bishops

By Roberto Suro
New York Times Service
ROME—Roman Catholic bishops in Italy have entered a political debate by issuing a pastoral letter that is widely regarded as an election endorsement of the Christian Democrats.

The letter, issued over the weekend, has produced a stream of hostile reactions from other parties, which have accused the church of meddling. A Christian Democratic leader responded by saying his rivals were bigots for criticizing the bishops.

Caught up in the fray, the bishops have twice issued statements trying to clarify their position.

The polemics reflect a long controversy over the church's role in Italian politics as well as the tensions building over the parliamentary elections on June 14. Also, the bishops touched on a potentially volatile political issue by calling on the faithful to defend traditional moral values when they vote.

Although the bishops' letter does not specifically mention the Christian Democrats, it includes phrases and ideas that have been used in the 1940s and 1950s when the church provided the Christian Democrats with important and sometimes explicit backing.

Some Italian newspapers carried front page headlines such as "The Bishops: Vote Christian Democrat." The letter came after a decision by the leader of the largest Catholic lay group in the country, Comunione e Liberazione, to stand for election as a Christian Democrat.

Several political columnists have depicted the party as aligning itself with the church at a time when it is quarreling with the Socialists and other former allies.

Acknowledging that not all Catholics need come to "identical political choices," the bishops insisted, however, that "not all choices are compatible with the faith and with the vision of man and society which faith breeds."

Although this is a position that Pope John Paul II has stated in his travels abroad, it has a particular resonance in Italy.

The letter emphasized church prohibitions on divorce and abortion as essential elements in making the political choice. Virtually all the major political parties, except the Christian Democrats, sided against the church when it unsuccessfully backed referendums to repeal existing laws on divorce in 1974 and abortion in 1981.

The bishops also extolled "faithfulness to the traditional unity of commitment by Italian Catholics," language echoing statements made when the church supported the Christian Democrats as the only defense against the Communist Party during the first few elections after World War II.

The Socialist newspaper Avanti responded to the letter by labeling it an "anachronism" and arguing that "Christian values cannot be the exclusive patrimony of one political party." Other critics came from the center-right Republican and Liberal parties, the Communists and the rightist Social Movement.

The Socialists tempered their criticism after a spokesman for the Italian Episcopal Conference said that the letter was intended to help the country as a whole by highlighting fundamental values and was not meant as an endorsement of one party. But the bishops disavowed that statement.

Jacob Gordin has given no hint of his political strategy in Punjab and few agree that police action would end the guerrilla war that intensified after an Indian army attack on the Golden Temple in Amritsar, the Sikhs' holiest shrine, in June 1984. More than 1,000 people were killed in the assault.

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The imprisonment of prisoners of conscience, the use of torture, the death penalty and the amputation of fingers constitute forms of torture or cruel, inhuman or degrading punishment, Amnesty International said.

The organization asked that provisions in Iran for stoning to death, crucifixion, amputations and floggings be replaced with more humane punishments.

"At least six men and two women were stoned to death in 1986 and the authorities were using a specially devised electric guillotine for cutting off prisoners' fingers," the group said.

About 1,100 people also were flogged in the last year for sexual or alcohol-related offenses, it said.

More than 6,400 sentences of physical punishment were passed in Tehran alone in the 12 months up to March 1987, the group reported.

200 Reportedly Killed
 The Baghdad-based Mujahidin Khalq, an Iranian opposition group, said Wednesday that its fighters killed more than 200 Iranian Revolutionary Guards in the west Iranian province of Sardasht on Monday. Reuters reported from Baghdad.

The group said its men had captured seven military bases and destroyed two others.

Egypt Expels Diplomats
 Egypt ordered two Iranian diplomats to leave the country and closed their office in Cairo after an extremist Moslem group funded by Tehran was uncovered, Reuters reported from Cairo.

Iran Assailed on Prisoner Treatment

United Press International
LONDON—Amnesty International called on Iran on Wednesday to abandon "cruel, inhuman" treatment of prisoners, including executions, floggings and amputations for sexual, alcohol-related and criminal infractions.

The human rights organization also said that thousands of people in Iran have been arbitrarily imprisoned, tortured and executed for their political or religious beliefs.

A spokesman at the Iranian Embassy here denied that political prisoners were tortured or executed. He defended punishment for sexual, alcohol-related or criminal offenses, saying they were prescribed under Moslem law.

Amnesty International said it was appealing to the Iranian government to conform with international human rights standards to which Iran is committed by treaty.

The direct rule has given vast powers to New Delhi's appointed Punjab governor, Sidhartha Shankar Ray, and the state police chief, Julio Ribeiro, India's senior career police official.

Mr. Ribeiro, a Roman Catholic from Goa with a reputation for integrity and stringent law enforcement, said the situation was extremely grim and instant results could not be achieved. He said that a mass killing by extremists at this stage could be interpreted as a failure of the president's rule in Punjab.

Political sources said that Mr. Gandhi's major problem was identifying a group with a mass base with which to hold negotiations on a political settlement.

At the same time, the government is cracking down on Sikh extremists and sympathizers. Mr. Ribeiro said a list of people to be arrested had been circulated.

Prem Singh Chandimaira, cooperation minister in the Barnala cabinet and a vocal critic of Mr. Ribeiro, was among those arrested Wednesday. His arrest was immediately condemned by Mr. Barnala and his colleagues.

The government reached an agreement to solve long-standing Sikh grievances with Mr. Barnala's Akali Dal party last year and there was considerable optimism that it would lead to a settlement in Punjab by the end of the year.

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New Delhi Cracks Down In Punjab; 175 Arrested

NEW DELHI—Prime Minister Rajiv Gandhi's central government moved with force into Punjab on Wednesday, arresting 175 people in a swift crackdown less than 48 hours after taking over control of the state.

Political sources in the state capital, Chandigarh, said Mr. Gandhi was expected to open talks with leaders allied to Sikh militants in an attempt to reach a political settlement in what appears to be a carrot-and-stick policy.

Mr. Gandhi's government imposed direct rule from New Delhi on Monday, and dismissed the state's moderate chief minister, Surjit Singh Barnala, saying he had failed to stem the tide of violence in which more than 1,000 people have been killed since he came to power in September 1985.

Militant Sikhs, who see no future for their religion in predominantly Hindu India, have launched a violent campaign for a separate homeland.

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WORLD BRIEFS

UN Experts Say Iraq Used Poison Gas

UNITED NATIONS, New York (UPI)—A UN team of experts said Wednesday that Iraq has made "repeated use" of poison gas against Iranian troops and civilians in the Gulf war but the panel could not confirm assertions that Iran is also using chemical weapons.

"There has been repeated use of chemical weapons against Iranian forces by Iraqi forces, employing aerial bombs and very probably rockets," the experts reported. "The chemical agents used are mustard gas (ypertite) and probably, on some occasions, nerve agents. A new dimension is that civilians in Iran have also been injured by chemical weapons."

The four experts, sent by Secretary-General Javier Pérez de Cuellar on their third investigative mission in just over three years, visited both Iran and Iraq. Iraq has denied the allegation and said that Iraqi forces — either by mistake or intentionally — have used poison gas against their own troops and civilians.

Arbiter to Review Taba Land Dispute

GENEVA (Reuters)—Egypt and Israel set out their arguments over the disputed Taba strip on the Gulf of Aqaba on Wednesday in documents submitted to an arbitration panel that was established last year to determine sovereignty.

Both sides agreed in September to submit the dispute to binding international arbitration to determine sovereignty over the 760-meter (828 yard) beach, which is held by Israel and claimed by Egypt.

The presentation of documents at a villa outside Geneva was the first in a series of steps before actual arbitration begins later this year or early in 1988, officials said.

Smith Resigns Zimbabwe Party Posts

HARARE, Zimbabwe (UPI)—Former Prime Minister Ian Smith resigned the leadership of the Conservative Alliance party and its 14-member legislative caucus on Wednesday. He said the caucus had elected Mark Partridge, the party's deputy president, as its new chairman.

Mr. Smith, 68, said he would continue to be a member of the party but that his active political career, after 39 years, was "drawing to a close." He said his main reason for resigning was the government's "vindictive" action following remarks he had made in South Africa opposing sanctions against that country.

As a result of those statements Mr. Smith was suspended from the legislature for a year after the government pushed through a motion saying the remarks amounted to contempt of the legislature.

Trash Barge Invited to Unload in U.S.

ISLIP, New York (UPI)—A barge loaded with rotting garbage that has been turned away from ports in five states and three countries is welcome to return to New York for burial but the barge operator, Lowell Hambleton, has refused the offer.

He said taking the trash to Islip would require costly overland transport from a port in New York City to the dump. The barge, dubbed the "Flying Trashman," left New York on March 22 in search of a dumping ground for 3,186 tons of refuse. On Tuesday it was reported off the coast of Georgia and moving north.

Frank Jones, the Islip town supervisor, said the Long Island community can accommodate another three years of garbage in its landfill and is accepting commercial clients.

For the Record

Richard W. Murphy, the U.S. assistant secretary of state for Near Eastern and South Asian affairs, arrived in Saudi Arabia on Wednesday for talks on the Iraq-Iran war and the Arab-Israeli conflict. (UPI)

A car bomb exploded in West Beirut near a Syrian Army base Wednesday. One Syrian soldier was killed and two were wounded as they tried to defuse the bomb. They were the first Syrian troop casualties since Damascus sent soldiers into the city in February. (Reuters)

Karl Linnaeus has appealed for pardon to the Soviet authorities who sentenced him to death 25 years ago in absentia. Tass said Wednesday. Linnaeus, 67, was deported from the United States last month and is imprisoned in Tallinn, the Estonian capital. He was convicted in 1962 of taking part in mass murders while serving as a Nazi death camp commandant in the Estonian city of Tartu. (Reuters)

TRAVEL UPDATE

Air Inter, France's domestic airline, plans to offer preferential treatment on seating starting in April to business travelers who pay full fares. (IHT)

France will create a deluxe first class service on some of its high-speed trains, the TGVs, and on some express trains next year. It will include dining service in compartments, video and telephones. (IHT)

Workers at Iberia and Avianca airlines in Spain reached agreement Wednesday on a raise and called off five 24-hour strikes scheduled to start next week, union and company officials said. (UPI)

OECD: Baker Asks Time for Growth

(Continued from Page 1)

billion in April, although the overall surplus shrank somewhat in the month.

At the OECD meeting, the Japanese stated that their objective, in addition to stronger growth, is a rapid increase in imports and a further improvement in access to Japan's markets of foreign goods and services. They accepted in the final communiqué wording that the final destination was to be achieved by the end of the year.

The West Germans, however, were less forthcoming. The secretary's proposal that growth of domestic demand, and particularly private investment, must be "sustained," or even "strengthened," and exceed substantially the growth of potential output were both dropped in the final version.

The only concession they made to doubt that the government's targets will be met was a watered down statement that "should there be a serious risk to the sustained expansion of domestic demand, especially private investment, the medium-term strategy for growth and higher employment would be adjusted as a consequence."

Martin Bangemann, West Germany's economics minister who chaired the meeting, said at a press conference that a shortfall in a single three-month period would not signal a need for change. The country experienced a decline in growth in the first quarter.

But Mr. Bangemann said that there would be an improvement in this quarter and continuing in the second-half.

He said his aim was to achieve a 2 percent rate of growth this year. However, last month's OECD forecast put the figure at 1.5 percent.

Mr. Baker said that he was encouraged by the Japanese and West German commitments to spur growth, but urged the Germans "to do as much as they can as soon as they can" as "we feel they have more room."

McFARLANE: Reagan, Fahd Discussed Contra Aid

(Continued from Page 1)

oner and tortured when he made the journey to discuss a possible arms-for-hostages deal, particularly because he knew many of the U.S. government's most sensitive secrets.

"I am confident that I had the means at hand to foreclose my being exploited for intelligence," he said.

Mr. Courter replied, "I think I understand," and did not directly ask Mr. McFarlane about the report of pills.

But as he left the hearing room during a lunch break, Mr. Courter said that Mr. McFarlane "was prepared to kill himself."

He said he had not asked a direct question because he considered it too personal.

In February, Mr. McFarlane was admitted to a hospital after taking an overdose of tranquilizers in what the police described as a suicide attempt. It was believed to be linked to the strains of the Iran-contra affair.

Mr. McFarlane had suggested on Monday that Mr. Reagan might have discussed the Saudi contributions in his meeting with Fahd. On Tuesday, he said he had not meant

to imply that the president had raised the issue.

At the White House, Mr. Reagan said: "My diary shows that I never brought it up. It shows that the king, before he left, told me that he was doing that and that he was going to increase the aid."

Mr. Reagan added, "There was no solicitation that I know of, or anything of the kind."

"I did know," he said, noting that he was "informed that he was helping but I never brought it up."

The subject was never broached until he was leaving," and the Saudi king "told me what he was doing," Mr. Reagan said, adding that "I expressed pleasure that he was doing that."

Saudi officials have denied giving aid to the contra, or that the president and the king discussed the subject. But congressional investigators have said that Saudi Arabia gave \$32.5 million to the contra in 1984 and 1985.

The fresh disclosures occurred as Mr. McFarlane testified that an Israeli official, David Kinche, prodded U.S. officials persistently to authorize the sale of arms to Iran.

Mr. McFarlane said it was Mr. Kinche, then a senior official in

the Israeli Foreign Ministry, who first approached him about opening talks with Iran in mid-1985, and two weeks later told him the Iranians were insisting that U.S.-made missiles be part of any arrangement.

When Mr. Reagan rejected the idea of selling U.S.-made weapons directly, Mr. Kinche returned with a proposal that Israel sell American weapons to Tehran and be permitted to purchase replacements from U.S. stocks. Mr. McFarlane said Mr. Reagan approved that arrangement, and the first shipment of missiles was made shortly afterward.

"Mr. Kinche is a very careful man," Mr. McFarlane said, adding he believes that whatever proposals he made to the Reagan administration were on the instructions of the Israeli government.

Mr. McFarlane's testimony about Mr. Reagan's meeting with Fahd, coupled with the disclosure about the president's handwritten diaries, have raised fresh questions about Mr. Reagan's involvement in the entire affair.

"I think the effect of all the testimony so far is to make it clear the president was more deeply involved in these events, more aware of them as they occurred than was previously believed," said Senator George J. Mitchell, a Democrat of Maine.



Robert McFarlane laughs during hearing Wednesday.

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BARBIE: Accused Abandons Court

(Continued from Page 1)

who does not dare go back over his past.

A lawyer representing another civil plaintiff told Barbie: "I say to you without any hatred that you disappoint me. You are a coward."

In his statement, which he delivered in German two hours after court reopened Wednesday, Barbie described "a climate of revenge and of lynching" in the French news media.

One lawyer alleged later that the defense attorney, Jacques Vergès, had given Barbie the statement to read. The defendant read from a prepared text.

Mr. Vergès, who has a history of defending unpopular causes, denied the claim and said, "I am honored to defend this solitary man."

The presiding judge, André Cordin, suspended the trial briefly while Barbie was handcuffed by one of his police guards and taken to a cell in the Lyon courthouse.

It was the second trial this year in which a prisoner defended by Mr. Vergès has refused to attend his trial.

In February, Georges Ibrahim Abdallah, an alleged Lebanese guerrilla leader, made a statement condemning his trial and left on his opening day.

Mr. Abdallah later received a life sentence for complicity in the murder of a U.S. and an Israeli diplomat and in the attempted murder of the American consul in Strasbourg.

Lawyers said that the presentation of evidence would continue without Barbie, although it was unclear how the defense would proceed.

Some observers said that Mr. Vergès had a clear field to introduce whatever arguments he chose, unfettered by his client's attempts to justify his wartime role. But others said that Barbie's absence would weaken the lawyer's presentation.

The next three days of the trial had been set aside for presentation of evidence and questioning of Barbie.

Mr. Vergès has maintained since he agreed to handle Barbie's defense in 1983 that he would turn the trial into a traumatic review of French collaboration during World War II.

Barbie faces a maximum sentence of life imprisonment on charges that involve the deportation of many Jews from the Lyon area. He is also accused of deporting non-Jewish resistants whom he is alleged to have tortured personally.

Barbie had remained in the court he would have heard the trial's first two witnesses, who are now scheduled to begin testifying against Barbie on Thursday.

One is Gustavo Sánchez Salazar, a former Bolivian interior minister who organized Barbie's expulsion while serving as undersecretary in the ministry. Mr. Sánchez was summoned to testify on the legality of the moves to expel Barbie from Bolivia and to describe Barbie's life there.

The other is Erhard Darbringhaus, now a University of Detroit professor, who recruited Barbie for the U.S. Counter Intelligence Corps in the American zone of Germany after the war.

It was with U.S. help that Barbie, who was being sought by the French authorities, left Europe in 1951 for Bolivia.

Judge Cordin asked Barbie to explain his attitude toward gypsies, Jews and Slavs, all of whom were considered "inferior" by Adolf Hitler and singled out for extermination.

"These questions go back more than 40 years and I can't reply," he said. "I worked under my superior."

He added: "I harbor no hatred against these minorities. I never did and I do not know hatred."

Later, in questioning about his recruitment by the CIC, he alleged that his infant son was held hostage by his American superiors to force him to cooperate after the war.

BASEBALL: Japan's Kinugasa Closes In on Lou Gehrig's Game Record

(Continued from Page 1)

Mr. Kinugasa says he especially enjoys letters that schoolchildren send praising his "fighting spirit."

He is the first to admit his overall statistics are less impressive than Lou Gehrig's. He started the year with a career batting average of .271. The 1986 season was dismal. He slumped to .205 and seemed to be hanging in only to break the consecutive-game record.

But he also won the Golden Glove at third base, suggesting he had not slowed down beyond redemption, and he has proved that this year by rebounding to hover among the top hitters in Japan's Central League. As of May 9, he

was batting .309, with four home runs and 16 runs batted in after 22 games.

With a hard swing and a taste for high, outside pitches, Mr. Kinugasa has always been a slugger. In Japan, he is fifth in career home runs, and needs only nine more to reach 500. He does not have to bother checking, though, to see if anyone is ahead of him in strikeouts. He is tops, with 1,526 at the season's start.

"It's probably the only other record I'll ever have," he said with a laugh.

Mr. Kinugasa's dark features attest to his heritage — a Japanese mother and a black father. He does not care to discuss his million or so. Mr. Kinugasa's two authorized biographies.

It is not an especially important matter, but it is an interesting cultural footnote in a country that prides itself on its presumed homogeneity (if one sets aside the million or so Koreans, Chinese, Southeast Asians and Westerners living in Japan's midst).

The "uniqueness" of being Japanese often approaches a national

obsession, and so it is striking how many legendary baseball stars are not "pure Japanese."

Mr. Kinugasa is half-black. Isao Harimoto, a one-time great outfielder, was Korean. So was Masachi Kaneda, the Walter Johnson of Japan with 400 career victories. Even the incomparable Sadaharu Oh was the son of a Chinese immigrant.

As a boy in Kyoto, Mr. Kinugasa was taunted by his schoolmates. Years later, his background apparently still weighed heavily on him.

A former Carp teammate, Tatsuo Okitsu, told a sports daily in 1984 about a moment many years earlier when he found Kinugasa studying English late into the night.

"I asked the reason," Mr. Okitsu recalled, "and he said he wanted to go to America to look for his father because he'd never met him. I advised that he would do better working extra hard on his swing instead of his English. 'If you become the No. 1 player in Japan, he'll come to see you,' I told him. He nodded, with tears in his eyes."

ISRAEL: Peres Fails on Peace Plan

(Continued from Page 1)

not intend to resigning or call elections.

A statement issued by Mr. Shamir's office said that, because the proposal was not accepted by the inner cabinet, "the foreign minister has no mandate to act in the international arena on the subject of an international peace conference."

3 Palestinians Sentenced
 Three convicted Palestinian terrorists were each sentenced Tuesday to 40 years in prison by a military court in the Israeli-occupied Gaza Strip, Agence-France Presse reported from Tel Aviv.

Jilal Mahmud Raho, Bassam Ali Azzayin and Kamal Ali Azzayin pleaded guilty to charges of planting bombs at Beersheva, Tel Aviv, Gaza and in front of the prison at Ashkelon, where several hundred Palestinians are serving sentences.

They also were convicted of the attempted murder of three Israelis shopping at the Gaza market.

AIDS to Be Topic at Venice

PARIS—Plans to coordinate the search for a cure for AIDS will be among the issues discussed at the seven-nation economic conference next month in Venice, top officials at a meeting of the Organization for Economic Cooperation and Development said here.

"We will try to discuss the problem because public opinion is very worried," said Giulio Andreotti, foreign minister in Italy's caretaker government, which will be the host to the Venice conference June 8-10.

A Reagan administration official said of AIDS, "I see it becoming as important as terrorism and drugs have been at other summits."

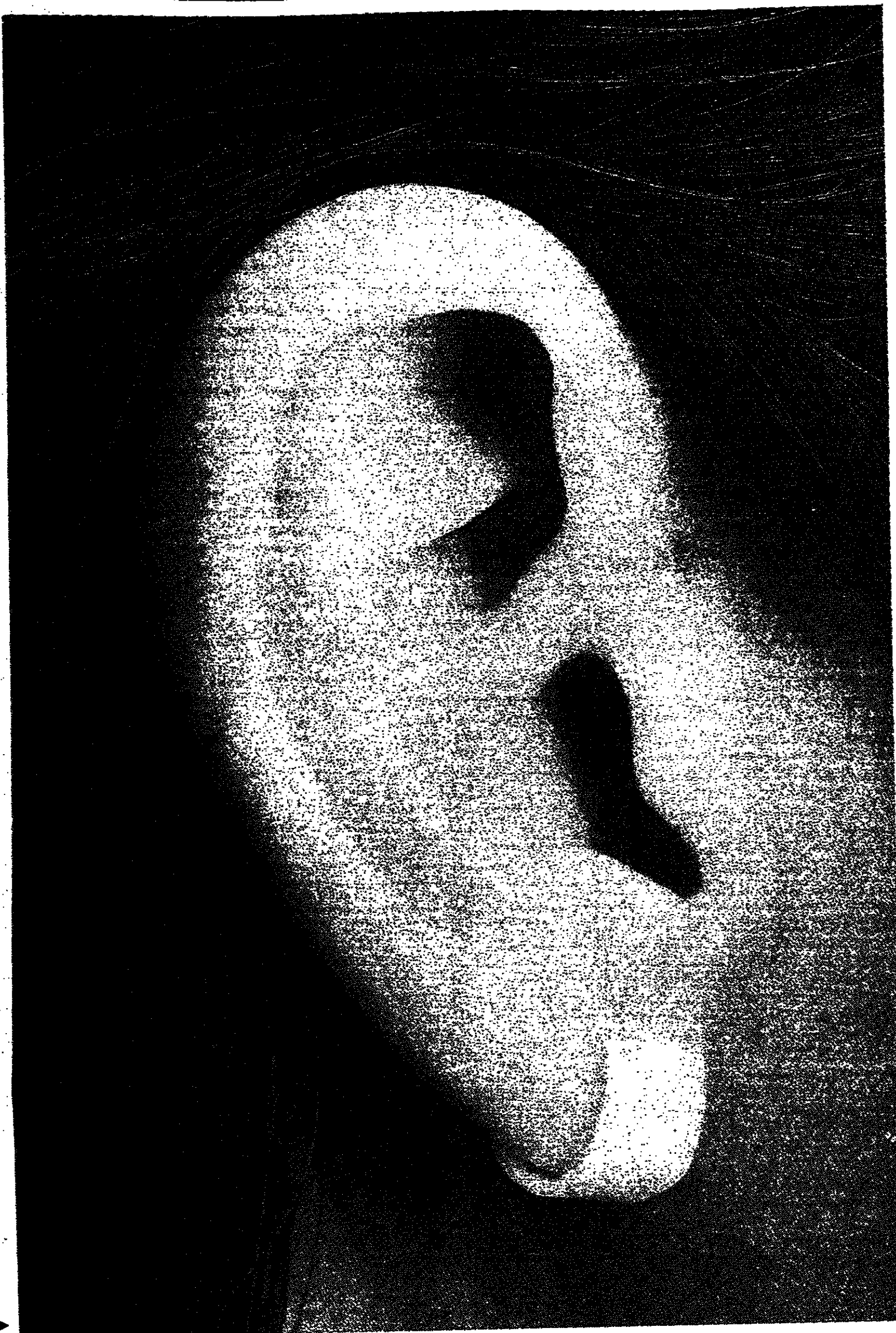
Many of the finance and foreign ministers who will be in Venice are in Paris for the meeting of the OECD, which is made up of the world's 24 main industrial countries.

Official deliberations are held to economic issues, but other topics have emerged. In comments outside their meeting room, officials said that AIDS, or acquired immune deficiency syndrome, would be widely discussed in Venice.

A member of the U.S. delegation in Paris, which is led by Treasury Secretary James A. Baker 3d, said the spread of AIDS, especially in some African countries, was becoming a matter of political and economic policy, not solely one of health.

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INTERNATIONAL Herald Tribune

Gulf: Parallel Courses

Suddenly the United States and the Soviet Union are working in tandem, or at least in parallel, in a Third World hot spot. This rare spectacle is unfolding in the Gulf, where both countries have offered to protect the shipping of Kuwait, an ally of Iraq, against Iranian attack. The effort does not replace the two powers' long-term rivalry in a strategic region. On the contrary, the various proposals to escort and defend tankers and other cargo vessels are a form of that competition. But it is a form that holds some promise to move the seemingly interminable war in the Gulf toward an end.

The Soviet and American approaches arise from a peculiar fact of the war. Iran and Iraq, unable to effect a decision in battle on land, have increasingly sought to choke each other off at sea. But sea lanes are in international waters where other countries can assert an interest in free navigation and where this superpower involvement can be undertaken more easily than in a land war — though not without risk.

Iraq, aware that the Gulf is Iran's only outlet (Iraq can export oil by pipeline), has shot up more Iranian shipping than Iran has shot up ships headed to or from Iraq and Iraq's Gulf allies. That makes it hard

for the United States and other countries that oppose an Iranian victory in the war to base policy exclusively on a regard for free navigation, where Iraq is the worse offender. But it leaves them free to support "the self-defense of our friends in the region," in President Reagan's words.

Moscow's attempt to expand its strategic presence in the Middle East is part of a new Soviet activism in the Middle East that includes a reach for a larger diplomatic role in the Arab-Israeli dispute. On both matters, Washington is properly wary of seeing Moscow penetrate traditional Western preserves.

In respect to the Gulf, however, Americans note that in making their move, the Soviets are serving Western interests — free navigation, assuring the flow of oil to the West. Further, Moscow is acting on the American premise that it is vital to check Iran's invasion of Iraq. Like the Americans, the Soviets value Iran strategically but are put off by the Khomenei regime politically and ideologically. To hear the Tehran regime decrying Soviets and Americans as similarly unwelcome interlopers in the Gulf is to become aware of the limited but important interest the superpower share here.

—THE WASHINGTON POST.

What Sort of Tax Rise?

The budget resolutions of both the U.S. House and Senate call for an \$18 billion tax increase next year. If that is what the tax committees are instructed to produce, how should they do it? The best way would be through the income tax. A first step, as House Speaker Jim Wright has suggested, would be to defer next year's scheduled final cut in the top rate to 28 percent from 33 percent. The top rate already was lowered from 70 percent when President Reagan took office. Yet the income tax is still the most progressive tax the government has, and it is so large that \$18 billion could be raised with only minor adjustments.

The problem, of course, is that the president is proud of the rate cuts, which were part of last year's bargain on tax reform. He says he will veto any rate increase, and there is little disposition in Congress to dispute him. The fairest, most efficient kind of tax increase has pretty well been ruled out: the committees are reduced to second-best.

By default, they are thus forging among the excise taxes. The virtue is that it is in society's interest to discourage consumption of the three leading items on which excise taxes are levied — gasoline, alcohol and tobacco. The defect is that excise taxes are regressive and there is not much revenue to be had. The total now collected from all excise taxes is about \$33 billion a year.

The gasoline tax, which at 9 cents a gallon raises \$9 billion a year, is the largest. A further dime a gallon would produce about half the revenue that the budget resolution is likely to require in the first year (it

may need more thereafter). The House Ways and Means Committee chairman, Dan Rostenkowski, prefers this alternative — prices still would be lower than several years ago — but Westerners, whose constituents often must drive long distances, are opposed. A broader energy tax, on all oil, for example, would spread the burden more evenly. A third variation is an oil import fee. This is popular in oil-producing states because it would give domestic producers shelter to raise their prices, but it is resisted in the import-dependent East. Our sense is that the gasoline tax is the cleanest of these.

The alcohol taxes now produce about \$6 billion a year. Most of that comes from hard liquor, whose alcohol content is taxed much more heavily than the alcohol in beer or wine. One alternative would be to equalize the alcohol-adjusted taxes among the three; but it is a brave politician who will propose to raise the beer tax. One argument for raising these taxes is to put a penalty on drinking, with its attendant costs. The same is true for cigarettes, on which the tax of 16 cents a pack produces \$4.5 billion a year. Estimators think that, while deterring young smokers particularly, a doubling of the tax would yield \$3 billion annually.

Administration officials have occasionally coyly indicated that, if there has to be a tax increase, an increase in excise taxes and the "sin" taxes would be preferable. In this administration, a tax on consumption beats a tax on income every time. But that may be all the political system can now produce.

—THE WASHINGTON POST.

Judging Meese, Again

It is no longer remarkable to find the U.S. attorney general under investigation by a special prosecutor. The case of the Wedtech Corporation marks the third time an independent counsel, appointed by a court under the Ethics in Government Act, has scrutinized Edwin Meese's conduct — twice at his own request. But remarkably, Mr. Meese continues to denounce as unconstitutional the law that allows such inquiries.

He argues that the independent counsel law invades the powers of the executive branch by creating a prosecutor not subject to dismissal by the president. That is the essence of the post-Watergate reform that prevents something like Richard Nixon's 1973 firing of the prosecutor Archibald Cox.

When a high-ranking government official comes under suspicion, existing federal machinery often cannot do a credible investigation. In the Wedtech case, the public cannot be expected to believe that the Justice Department would prosecute its boss vigorously

or give him a believable clean bill of health. That is why Mr. Meese, confident of vindication in his association with investors in the scandal-ridden business, asked to transfer that investigation to an independent counsel. Such a counsel is already looking into the Wedtech dealings of Lyn Nofziger, Mr. Meese's longtime political associate.

An independent counsel requested by Mr. Meese three years ago made his confirmation as attorney general possible by clearing him of criminal wrongdoing in the doling out of White House jobs to creditors and friends. The current investigation by Lawrence Walsh, the independent counsel in the Iran-contra case, could benefit Mr. Meese, whose own lumbering inquiry raised suspicions.

The attorney general, whose demeanor ought to be a model for law enforcement sensitivity, would do well to monitor his own behavior better — and to stop bad-mouthing the very law that can clear him.

—THE NEW YORK TIMES.

Porpoises and Permits

Each year Japan sends a fleet to U.S. waters to fish for salmon. In the process, porpoises become entangled and die in nylon nets that are invisible to their sonar. A permit that allows this "incidental" catch is up for renewal. The Commerce Department should allow the Japanese some leeway despite the objections of conservationists.

The porpoises are in no danger of extinction, and denying the permit would run against other American interests.

Conservationists argue that not enough is known about the porpoise populations to issue a permit. They point out that the fleet operates in a calving area, and that each pregnant or lactating female killed equals two deaths. The Japanese want to renew the permit at 5,500 a year, or at the very least 4,000. An administrative law judge's conclusion that the right number is 1,750 has left no one happy. The Japanese threaten to scuttle other fishing agreements and conservationists talk of lawsuits, should Commerce adopt the recommendation.

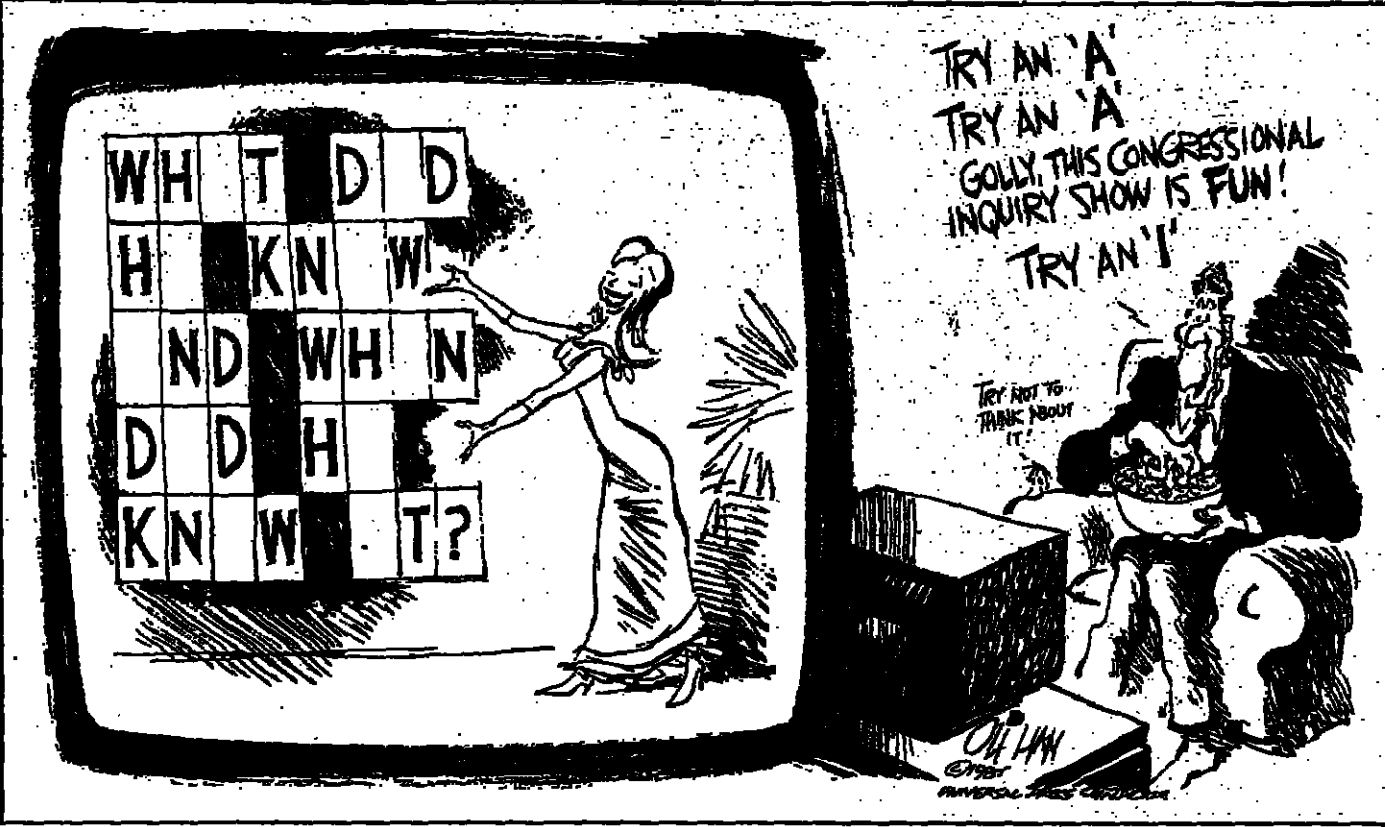
The Marine Mammal Protection Act seeks to reduce incidental fishing mortality to insignificant levels. It also provides for kill permits during commercial fishing so long as

species are not depleted. Thus the Japanese have been allowed to kill up to 5,500 Dall's porpoises a year since 1981. They have never reached that limit. Last year the number was near 1,500; in 1985 it was about 2,700. Judge Hugh Dolan would reduce the quota to roughly the five-year average.

The Japanese want a higher number to cushion against normal fluctuations in the mortality rate; otherwise the fleet could be shut down. Some conservationists would like just that, since drift nets are destructive to marine mammals and sea birds. But denying the permit would rob the United States of leverage in future negotiations and invite the Japanese to renege on agreements like one that restricts salmon fishing in the Bering Sea. It also would discourage their research on less harmful nets.

The Commerce Department should issue a permit of less than 5,500 but at least 1,750. If the permit were issued for two years instead of five, any hardship on the porpoises or the fishermen would affect only two seasons. Protecting porpoise populations and catching fish need not be mutually exclusive.

—THE NEW YORK TIMES.



Independent Americans Turn to a No-Party System

By Richard C. Wade

NEW YORK — The sudden departure of Gary Hart from the campaign has, strangely enough, probably not altered the Democratic nomination or the presidential outcome. Before his exit, Mr. Hart was clearly his party's front-runner, just as Vice President George Bush has had a handy lead in the Republican sweepstakes. In both cases, the polls have placed them around the 50 percent mark and found their competitors struggling to get into the double digits. Only Senator Bob Dole in the Republican Party has seemed to be close enough to being a serious contender.

Yet the margin of their standing was more apparent than real. In political terms, their support has been "soft" — broader than it was deep. Indeed, the perceived vulnerability of both Mr. Bush and Mr. Hart has induced a bevy of other candidates on both sides into the field. The races, especially in the Democratic Party, were wide open before Mr. Hart dropped out.

Why is this? Usually such large margins by front-runners would discourage new entrants. The reason, I think, is a general misconception about modern American politics. Informed opinion still thinks in terms of party, as if the Democratic and Republican parties possessed a general, if somewhat vague, coherence; as if people still held to inherited or acquired allegiances; as if the parties, even as they jostle for uncommitted voters, embodied significant differences.

Actually the words "Democratic" and "Republican" have lost their historic meanings and no longer lay claim to traditional ties and presumed loyalties. Ever since voters examine candidates without regard to labels or enrollment. If they like what they see, as in the case of President Reagan, they are happy to disregard party lines (he himself was once a Democrat); if they find him wanting, like Mr. Hart, the rejection is quick and decisive.

The fact is that America no longer has a two-party system but rather a no-party system. The independents in both parties now outnumber predictable party voters. Some polls indicate that a majority no longer consider themselves Democrats or Republicans, and tend to measure candidates by their freedom from partisan commitment.

They also reject leaders of their own constituencies who try to influence them. Labor unions supported Walter Mondale in 1984 only to discover

that half their membership abandoned them for Ronald Reagan. In the same way, black voters disregarded the choice of most of their spokesmen and went in droves for the Reverend Jesse Jackson in the Democratic primaries.

Enrollees of both parties jump ship regularly. Even popular elected officials are quick to point out that their support is hardly ever transferable to other candidates. And millions of citizens have dropped out of politics altogether; barely half even bother to vote in presidential elections.

This rampant independence is a central fact of contemporary politics. And its sources are not hard to discover. An almost continuous prosperity since World War II has produced a generation that does not need politics for jobs or success. Television has replaced parties as a mediator between candidates and citizens, withering the grassroots organizations that once nourished political activity. In addition, a string of public scandals beginning with Watergate has bred a corrosive cynicism about the entire democratic process. The result is a skeptical electorate that trusts its own judgment more than the established sources of political authority — parties, elected officials or civic leaders.

The case of the Republican Party is instructive. A sitting vice president, George Bush, is challenged by the majority leader of his own party, Bob Dole. A conservative representative, Jack Kemp, and a former senator, Paul Laxalt, lay conflicting claims to the legacy of a popular, if weakened, president. And a preacher, Pat Robertson, almost ambushed the front runner in a Michigan presidential caucus. The conservative captivity of the Republican Party began with Barry Goldwater's candidacy in 1964 and intensified into argument over who is the "real conservative."

The Democratic disarray is also illuminating.

Mr. Jackson speaks for a considerable and loyal segment of the party — the blacks — but he has yet to attract the other colors of the "rainbow coalition." The younger generation of presidential hopefuls argue that what is needed are "new faces" and "new ideas" to attract the "baby-boomers."

But in searching desperately for the "new" candidates neglect the historic roots that made the Democratic Party successful for years. These aspirants — Governors Bruce Babbitt and Michael Dukakis, Senators Joseph Biden and Albert Gore, and Representative Richard Gephardt — are variously called "neo-liberals" or "high-tech Democrats." Their sophisticated polling and computerized campaigns emphasize the perceived wishes of the younger voters, who dominate demographic charts but who do not vote in very large numbers.

Another part of the party espouses more traditional themes, claiming that economic and social justice at home and democratic intervention abroad are as important today as in the past. And it makes no apology for the New Deal and its successors, the New Frontier and the Great Society. The most prominent spokesmen for this position are not candidates, namely Senator Edward Kennedy and Governor Mario Cuomo.

One announced candidate who has picked up the flag is Paul Simon, a senator from Illinois. He describes himself this way: "I am not a neo-conservative. I am a Democrat." And he asserts that the historic Democratic heritage still makes good political sense. An unabashed liberal, he has repeatedly won elections in southern Illinois, one of the most conservative regions in the nation.

Neither party, though, carries out its intramural debate within the confines of a well-defined constituency. No matter what their registration, the voters will exercise an independent judgment in both the primaries and the general election. They are notoriously unpredictable and constitute a fitting battleground for the adversaries in this new no-party system. All of the hopefuls will have to contend with this volatility. Gary Hart has demonstrated that only five days separates the "clear front runner" from no candidacy at all.

The writer is a professor of urban history at the Graduate Center, City University of New York. He contributed this column to The New York Times.

No Fiscal Locomotive Can Pull a Deficit-Heavy Train

By Hobart Rowen

PARIS — In talks here this week, Treasury Secretary James Baker has tried to persuade his European opposite numbers that the United States is delivering on the pledge to reduce its huge budget deficit.

It is essential that he do so: With considerable logic, his counterparts argue that if Mr. Baker is so insistent on creating a fiscal "locomotive" in Western Europe and in Japan to stimulate global growth, the promised American part of the bargain must be sharp deficit reduction.

That is supposed to be the essential cooperative method for reducing the huge trade imbalances that plague the world economy: the deficit in the U.S. account, and the surpluses in Western Europe and Japan.

Yet the view in Europe on the locomotive theory is sharply divided. Within the international research agency for major industrial nations, the OECD, there is a strong consensus. It is that the economies of West Germany, Japan and other nations that can expand should do so, not just to help lower the U.S. trade deficit, but in the interest of their own living stan-

dards and to foster world trade. The OECD position is that if the United States and its major partners do not expand such commitments, and deliver on them, the trade imbalances will continue indefinitely.

But some others here are dubious that a more aggressive pumping up of the European and Japanese economies can do much to boost global growth. A paper prepared by Europeans for a recent forum sponsored by the Center for Strategic and International Studies says the presumed global benefits of the locomotive theory are wildly exaggerated. It offers this grim warning to the Venice economic summit meeting next month: "Little that the principal Western partners can do in the short term will break the effect of the very serious imbalances that have been allowed to emerge over the last few years."

What most needs to be done will require not only time, but political perseverance of an exceptional order. The implication of that gloomy assessment is that Baker and Co. quit too easily in their effort to force the dollar lower — a judgment in which many financial analysts concur.

In any event, the shape of this week's talks here suggests there will be no change in the "coordination" strategy for the Venice session. The scenario, as laid out, still calls for budgetary retrenchment in the United States and expansion elsewhere.

To Europeans here, Mr. Baker is not convincing on the American role. As the Venice meeting draws near, they expect only a modest reduction in the U.S. deficit if President Reagan clings to his nay-saying on a tax rise.

Some Americans do not disagree with the European evaluation. The nonpartisan Committee for a Responsible Federal Budget said last week that a series of budgetary steps likely to be taken by Congress this summer will not solve "the serious structural deficit problem still facing the United States five years into an economic recovery."

On May 6, the Senate adopted a Democratic proposal similar to a

If Jordan Wants Peace, It Must Act

By Meir Rosenne

WASHINGTON — An Arab plea for peace with Israel is most heartily to be welcomed, especially when it comes from Jordan's ambassador to Washington, Mohamed Kamal ("A Jordanian Appeal: Kamal's Jewish Can Help," IHT, April 20). But the authenticity of his plea must be questioned.

He insists, for instance, that Israel compromise for the sake of peace, but he has nothing to say about any possible Arab compromise. Yet, in this matter, Israel needs no prodding. It has proved by deeds, in its peace treaty with Egypt, how far-reaching are the concessions it is prepared to make for peace.

The ambassador mentions Israel's military occupation of Judea-Samaria (the "West Bank") since 1967, but he is strangely silent about Jordan's military occupation of that area for 19 years before 1967. During that time, the area was constantly used as a launching pad for armed incursions into Israel. In fact, Israel has tragically experienced many decades of protracted war, terrorism and hateful incitement systematically unleashed by the Arab world with the avowed aim of destroying Israel.

Arab hostility set the stage long before Israel appeared in Judea-Samaria in 1967 — long before Israel's

main American foreign policy, not any other country. Inadvertently, Mr. Kamal has laid bare the essence of the Arab-Israeli conflict: the Arab inability morally to accept the historical and legal legitimacy of the Jewish state.

By ascribing the establishment of Israel to the "centuries-old Jewish yearning for permanent refuge against discrimination and oppression," he shows the Arabs' lack of understanding of the basis for the Jewish people's bond with Israel.

IN OUR PAGES, 75 AND 50 YEARS AGO

1912: Taft on the Trail

WASHINGTON — President W.H. Taft has issued an appeal to the women of California, where the State primary elections take place (on May 14), and where the women's vote is an uncertain factor. The appeal cites the achievements of the President during his tenure of office, including the creation of a children's bureau managed by women. This appeal is the first of the kind ever made by a President of the United States.

NEW YORK — The war between Mr. Taft and Theodore Roosevelt reached a degree of unprecedented intensity (on May 13), when the President, speaking at Cambridge, Ohio, flatly accused his predecessor of "trying to honeyfuge" the American people. Mr. Taft warned his hearers that they would be jeopardizing the country if they fed the egoism and vanity of Mr. Roosevelt by putting him in office again.

Out at Sea, Deterrence Can Work

By Christoph Bertram

HAMBURG — The haggling over how to respond to Moscow's latest proposals on missiles is disturbing, and not only for the distaste it shows up in the Atlantic alliance. For it also underscores the fact that the West is merely reacting when it should be taking the initiative to define how security and deterrence in Europe can be maintained.

Europe's security and deterrence now depend on the presence of large conventional forces, including about 320,000 American troops, coupled with U.S. nuclear weapons. Some of the latter are bound to be withdrawn as a result of the emerging U.S.-Soviet agreement on intermediate-range nuclear weapons. Others will remain in particular the almost 5,000 "battlefield" nuclear weapons, for use by artillery, aircraft and ships.

There are also a few hundred British and French nuclear warheads, some U.S. strategic missiles allocated to the North Atlantic Treaty Organization's supreme European commander, and a score of U.S. sea-launched cruise missiles.

But once the intermediate-range missiles are removed, the rest is largely of doubtful deterrence value. Take the battlefield weapons, which have been poured into Europe almost mindlessly to reassure nervous allies. Most use delivery systems of very short range. In a crisis, they would give a scarcely credible signal to a potential aggressor: that the West not only would use these weapons despite the attendant risks, but would release them early enough to make any difference in a European conflict.

U.S. strategic forces are also doubtful deterrents. They are simply too big a bang. To use them would be the last step to worldwide nuclear war. They could scarcely put the fear of defeat into an aggressor with limited military objectives in Western Europe.

So the European governments' fear about being left with these systems is understandable. But the attempt to hold onto the remaining systems is misplaced. To block the Soviet proposal to ban all missiles of a range of 500 to 600 miles (about 500 to 1,000 kilometers) from Europe is a safeguard action that the West cannot win. It also locks Western governments into short-term reactions when long-term thinking is needed.

NATO governments should accept the Soviet challenge and put deterrence on a sounder basis. Apart from sufficient conventional forces, that requires a small number of credible nuclear weapons. They would have to be stationed well to the rear instead of being at the front lines (where they could be overrun or create pressure on political authorities for premature firing), they would be mobile, not in vulnerable fixed positions where they would invite a Soviet pre-emptive attack, and they would be linked to deterring conflict, not precipitating it.

A weapon exists that combines these conditions. It is already being deployed in European waters: the Tomahawk sea-launched cruise missile, carried on U.S. warships. The navy has ordered 4,000 of these weapons, of which up to one-fourth are expected to carry nuclear charges. A small number of these missiles, dedicated to the European theater, would allow NATO to get rid of questionable short-range systems and to base deterrence in Europe on politically and militarily sensible forces.

There are problems with this proposal. The U.S. Navy has always been reluctant to have its cruise missiles allocated to any specific region, viewing them as a "floating asset." That attitude would have to be revised. And NATO's supreme European commander would have to be given authority over a sea-going cruise missile force in European waters, just as he has authority over all U.S. nuclear weapons based on land in Europe.

No less important, a cruise missile force dedicated to Europe must involve Europeans. European vessels could escort the missile carriers, which should be based in Europe. There would be political reservations about this, but they could be overcome if the creation of the new force were clearly coupled to the removal of all existing land-based nuclear capabilities from the continent.

The West cannot afford to let Mikhail Gorbachev define its deterrence needs. It must regain the initiative, in the interest of security and of arms control. A dedicated sea-going force of cruise missiles, attached to Europe, would serve these interests well.

The writer is diplomatic correspondent of Die Zeit in Hamburg, and former director of the International Institute for Strategic Studies. He contributed this to the Los Angeles Times.

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April 10, 1987

OPINION

Living 'as the Soul Directs': The Crimes of a Soviet Poet

By George F. Will

WASHINGTON — The brunch menu at one of Washington's posh hotels reminds Irina Ratushinskaya of the story of the donkey who, placed midway between two feed bags, starved to death from indecision. Not long ago, mealtime choice was not a problem for Miss Ratushinskaya, whose lunch was spoiled cabbage floating in salty water. Supper was an uncleaned fish in salty water.

We live stubbornly, like a small beast who's gnawed off his paw to get out of a trap on three. We've mastered that science And with brave smile — that way the wounds are bandaged tighter...

She could share her poems, as she did with her two guards, who asked her to recite an example of her criminal deeds. They were struck by this glimpse of beauty and intelligence in their barren world, but had no paper. So one guard transcribed the poem on the other guard's undershirt.

Miss Ratushinskaya has large brown eyes that do not blink often; they have seen much. Her matter-of-factness about her pilgrimage through fire makes an untested Westerner feel as flimsy as papier-mâché. Isolated, tortured, harassed, starved, exhausted, frozen, she could at any time have won release by signing an acknowledgment of "guilt." She never considered that. Instead, she fought the enforced senselessness — of camp life, the petty regulations and duties by which the authorities seek to break spirits and flatten personalities.

Because of the gentleness of life in good societies, we can live long lives and never need to be as brave as she was daily, instinctively. In her prison poems, her voice was at times almost jaunty: Well, we'll live as the soul directs, not asking for other bread. And I will get myself a tame mouse while having a dog is impossible... He and I will invent a land where there are neither cats nor camps...

We'll make a home behind any bars, beyond any February — spring... We'll raise a dog anyway, but in better times.

Those who believe that the release of Miss Ratushinskaya and a few others like her means much better times for her country should hear her contrary opinion. She knows that she is out only because she is a poet, and that thousands of others languish because they have no comparable hold on the world's imagination. That is why she cannot yet know the ease she imagined in prison, the contentment of being able to say, "We'll unsaddle the day — to graze." She was released from prison the day before the Iceland summit meeting, as a party favor for the West, a sign of Soviet interest in new agreements. So ended the saga that began when the KGB raided her apartment and seized books they described as "ideologically dangerous." The books included a volume of international agreements to which the Soviet Union has subscribed.

Washington Post Writers Group.

She does not seem to feel that the choices that brought her to the Gulag were choices; they were as natural as breaths.

has received since the Stalin era: seven years' hard labor in a camp for "especially dangerous state criminals."

Miss Ratushinskaya's principal crime was writing poetry. She describes her poetry as unpolitical, but nothing is considered unpolitical by a totalitarian regime. Furthermore, her poetry expresses a religious sensibility, for which she credits the regime. Just as boring Sunday schools have produced unbelievers, the reaction of 8-year-old Irina to anti-religious propaganda in school was: God matters.

Poetry and human rights activism led first to six months of interrogation in the KGB's Kiev prison, used for Gestapo interrogations after the Soviet-Nazi pact fell apart and Kiev was in German hands. She was transported to the labor camp in a windowless cargo car — another echo of Soviet-Nazi affinities. When Miss Ratushinskaya confronted the provocations of camp authorities, this woman with the mild surface displaying a porcupine personality, bristling with spiky resistance.

She does not speak as though — she does not seem to feel — that the choices that brought her to the Gulag, and then to torture and the edge of death, were choices. Her mental establishment made the choices as natural as breaths. Because of her spiritiveness, camp authorities shaved her head. When she fasted to protest mistreatment of others, she was handcuffed and forced by six men. Knocked unconscious in the struggle, she had liquids poured down her throat. Swollen from the salty diet, she spent much time in icy punishment cells where at times she was fed only every other day. Yet she used matchsticks to carve poems into soap bars, memorized them, then washed them away.



Just When I Was Prepared For Nothing to Go Right...

By Richard Reeves

NEW YORK — Like a jerk, I lost my wallet in midtown Manhattan last Tuesday. I had trouble sleeping, thinking about Wednesday and the agony of waiting in long lines to prove I existed by getting a new driver's license, bank card, credit cards and all the rest.

My only consolation was that I could write this column using the hassle and the

MEANWHILE

long lines as a metaphor to show that nothing works anymore in America. I composed whole paragraphs in bed; the confusion in airports with passengers and planes stacked up everywhere; the lousy service in stores that no longer seem to have clerks; being put on hold and being bombarded by Mantovani and commercials until the dial tone returns.

money, I hear, are hiring poorer people to wait in lines for them at places such as government agencies and airline offices. I know the system from Third World countries like Pakistan and Indonesia.

So, Wednesday finally dawned as one of the worst days of my life. After screaming at the baby and turning her over to her sister, I left for the lines at 10:40 A.M. I was on East 86th Street, and my first stop was at the American Express main office on lower Broadway.

"Mr. Reeves? We've been expecting you," the receptionist said, mentioning that the computer showed I had reported my credit card missing. "I am sorry, but it will take us another 10 minutes to get your new card ready."

At the Chemical Bank branch around the corner, the assistant manager said: "Your branch is in Sag Harbor? That's almost a hundred miles away. You'd better fill out this form."

"That took 30 seconds. Name, address, account number. 'O.K.," he said with a smile. "You'll get a new card in the mail within 10 days."

"Yeah," I said, "but how do I get money without a card to put in the cash machine?" He approved my check right there and I walked out with \$200.

But all that was in the private sector. Now it was Kafka time: the Department of Motor Vehicles. "New or renewal?" said the lady at the information desk near City Hall.

"Well, I lost my license," I said. "Renewal," she barked. "Fill out Form 44, then go to the yellow chain." It seemed to be half a mile away. But after filing out the short form — name, address, birthdate — I went to my assigned chain. Only six people were ahead of me.

In five minutes, I was facing a woman wearing a tag that said "L. Blocker." She looked at my form and said, "Six-fifty," I paid and she said, "Go to the back and they'll take your photograph."

The photo-taker said: "Smile. O.K. The permanent one should arrive by mail within 10 days. Have a nice day."

It was 11:38 A.M. My ordeal had taken all of 58 minutes. I went across to the Municipal Building and took the subway back uptown. The train was spooked, part of a new program to clean graffiti off each subway car three times a day.

I got back to my office after lunch. The first call was from my union, the American Federation of Television and Radio Artists. A lady named Marta Wagner had found my wallet in Central Park, seen my union card and delivered everything to AFTRA headquarters. Nothing was missing.

America may be falling apart. But you couldn't tell it by me today.

Universal Press Syndicate.

This Time, Only the Truth

Regarding the opinion column "It Won't Be Another Watergate" (May 7):

Raymond Price appeals: "This time, for a change, only the truth." The truth about President Richard Nixon is that he was guilty of gross misuse of the office of the president of the United States, and of the CIA, during his term in office. Mr. Nixon accepted a pardon, and in so doing, admitted his guilt.

The truth is that Richard Nixon and Henry Kissinger secretly bombed Cambodia. The truth is that the CIA helped in the coup that toppled the democratically elected government of Chile. The truth is that under Mr. Nixon, the CIA spied on U.S. citizens inside the country, something it is bound by its charter not to do.

All of this occurred during Mr. Nixon's watch, without even mentioning the Watergate affair and all its sleaze.

These things are and were true, regardless of whether Senator Sam Ervin was or was not a racist or a demagogue. They are true whether or not Bob Woodward, Carl Bernstein or any other reporter sought to become a "superstar."

Mr. Price writes: "If the current investigation builds into a comparable vendetta [comparable to Watergate, that is], the likely immediate cost will be Central America." The cost to whom? To the United States? Does the United States really own Central America? The president of Costa Rica, for one, would disagree. So would I. U.S. military and intelligence activities are doing far more to undermine respect for the United

LETTERS TO THE EDITOR

States in that region than is the existence of the government of Nicaragua.

Mr. Price, the Watergate hearings were not really a vendetta. The irragate hearings will not be one either. And I agree with you: This time, for a change, only the truth.

PAUL BIRCHARD, Glasgow.

Mr. Price's diatribe breaks new ground in demagoguery.

He implies that if the Watergate cover-up had succeeded, 25 million people in Asia would have remained free, and two million would not have died. Can you prove that, Mr. Price?

Does the writer want us to believe that the cover-up never took place? That the House of Representatives based its articles of impeachment on the work of lying journalists?

Nowhere does Mr. Price cite a single example of media misconduct. Being a poor loser seems to be par for the course for former Nixon staffers.

E. ERNEST GOLDSTEIN, Villars-sur-Ollon, Switzerland.

Share the Defense Burden

There is a tendency to blame America's government and its industry for a series of problems relating to the U.S. budget and trade deficits, as well as for the inability to cope with this situation and prevent worldwide economic instability. But it cannot be overlooked that the military expenditures of the United States represent about 25 percent of the

national budget, as compared with 1 to 2 percent in Japan and about 10 percent in West Germany, countries America is pledged to protect and which enjoy strong economies and large foreign trade surpluses. The defense burden should be more equally shared by the allies, thus reducing the U.S. budget deficit.

The allies should buy more weapons systems from the United States instead of developing their own. They should refrain from subsidizing their aircraft industries and buy military and commercial planes in the United States instead.

The industrial nations should also restrain their exports to the United States and promote imports from the United States of goods that are competitive and have a high level of technology and quality, so as to achieve a balanced trade with the United States.

They should bear in mind that this would represent the least evil — because a continued foreign trade deficit may lead to major economic and political shocks. These governments must make it clear to their electorates that reasonable sacrifices at the right time may prevent future shocks and catastrophes that would be much more painful.

JOSEF NAFTALISON, Zurich.

Beware Gephardt's Paddle

You have carried several stories in recent days about the efforts of the presidential hopeful Richard Gephardt, a Democratic congressman from Missou-

ri, to solve the U.S. trade deficit problem. Mr. Gephardt believes that Japan and other successful exporters deserve a strong dose of the "big stick."

Americans living abroad are already familiar with Mr. Gephardt's brassy views on trade, and we have felt the sting of his inspirational paddle. Last year, and for several years previously, he pushed hard in the Congress for the elimination of Section 911 of the Tax Code, which gives Americans working abroad a limited exclusion of foreign-earned income from their U.S. taxes.

Some of us have never understood the sense of the United States harassing its entrepreneurs overseas, and giving employers financial incentive not to hire Americans for jobs abroad. President Carter's Export Council in 1979 said that this practice costs the country billions of dollars in lost exports each year.

We ask Mr. Gephardt why Japan and other successful exporting countries go out of their way to support their citizens working abroad. Has he not thought it curious that none of America's trade competitors taxes the foreign source income of its citizens living in the United States or anywhere else?

Given the excitement about Mr. Gephardt's prospects for the White House, and the fact that he wants to get there as a champion of improved trade performance, the two million overseas Americans should ask what will happen if he is elected. On his past performance, we are all in for very sore bottoms.

ANDREW P. SUNBERG, Geneva.

GENERAL NEWS

Referendum to Test Ireland's Faith in EC

By Robert O'Connor

Special to the Herald Tribune

DUBLIN — Ireland's long-debated role in Europe will be put to the test this month in a court-ordered referendum on the European Community's latest drive for unity.

Last month, the Irish Supreme Court ruled that the Single European Act was unconstitutional. The Irish Parliament had voted in December to approve the act, which updates the EC's founding treaty and creates a mechanism for coordinating the foreign policies of the community's 12 member nations.

The Irish court ruled, 3-2, that the act illegally infringed on Ireland's right to shape its own foreign policy and that a constitutional amendment would be needed before the treaty could be considered valid.

The government has scheduled a referendum for May 26.

A broad coalition is seeking to block approval of the amendment. Opponents range from defenders of Ireland's traditional neutrality to conservative Catholics who fear that the act will require Ireland to legalize abortion.

Ireland is the only EC member that does not also belong to the North Atlantic Treaty Organization, the defense alliance that links a group of European countries with the United States and Canada.

The amendment is supported by Ireland's three major political parties and is expected to win approval. The Irish public is well disposed toward the EC, which has pumped millions of pounds into the country since it joined in 1973.

Entry into the EC was approved by 83 percent of the country's voters in a 1972 ballot.

To campaign against the May 26 measure, several organizations have banded together in a Coalition for Peace and Neutrality. The alliance includes such groups as the Ireland-Cuba

Friendship Society, the Returned Development Workers Association and the Irish Campaign for Nuclear Disarmament.

A spokeswoman for the coalition, Carol Fox, said that the Single European Act was part of a wider attempt to establish "an all-European

Opponents of the EC measure range from defenders of Ireland's traditional neutrality to conservatives who fear it could force the country to legalize abortion.

super-state. And any identification with that is going to inevitably draw us into NATO."

She said she feared that Western Europe was moving toward creating its own nuclear arsenal. "People went into the EC," she said, "thinking it was going to be an economic community, not thinking it was going to be a nuclear superpower."

Mrs. Fox criticized the act's proponents for depicting it as a simple vote on EC membership. If the act were renounced by Irish voters, she said, Ireland could simply renegotiate its position within the EC.

"It is just impossible," she said, "for any country to be thrown out of the EC."

But that view was rejected by Peter Doyle, a spokesman in the Dublin office of the European Commission, the EC's executive body.

Before Denmark approved the European Single Act in a referendum last year, Mr. Doyle said, the other member states, including Ire-

land, made it clear that renegotiation would not be possible.

Ireland is the only EC country that has not ratified the act. Defeat of the measure, Mr. Doyle said, would mean that "Ireland's position in the community would very quickly become untenable."

"If we reject the Single European Act," he said, referring to Ireland, "we'll be in a two-tier Europe and we'll be in a second tier all on our own. And we'll be left behind."

Mr. Doyle denied that the legislation would jeopardize the country's neutrality. "In fact," he said, "the Irish neutral position is given implicit recognition in the new treaty, which it never had before."

"The other member states," he added, "are not interested in Irish neutrality. It is not an issue for them."

The Supreme Court decision resulted from a suit brought by Raymond Crotty, an agricultural economist.

Mr. Crotty believes that EC policies helped drive up Irish unemployment and that the measure will transfer too much power to central authorities.

Ireland is proud of its nonaligned status. It remained neutral during World War II and it opposed the use of British force against Argentina during the 1982 Falklands war.

It also has taken a tougher line on apartheid than its European partners, imposing a ban on imports of South African produce. Jacques Delors of France, who is president of the European Commission, sees the Single European Act as central to "Europe's credibility."

He expects the measure to help bring about a "frontier-free market" and "greater economic and social cohesion," as well as a joint research and technology policy, a stronger European Monetary System and "meaningful measures for the environment."

For a Summer Job, Forget Prestige but Get Permit

By Sherry Buchanan

International Herald Tribune

LONDON — It is not easy for career-minded American students to convince European companies to give them well-paid summer positions. But those who lower their sights will have little trouble finding less prestigious jobs.

The Council on International Educational Exchange, based in New York, helps U.S. students to find temporary work in foreign countries and students from abroad find work in the United States.

Of the 4,000 students in its program who secured jobs last year in France, West Germany and Britain, only 15 percent found work related to their studies, the exchange reported. Another 26 percent were assigned to waitress or catering jobs and 30 percent to secretarial or clerical work.

Fifteen percent worked in bars or pubs, 12 percent in sales, 8 percent in hotels, 2 percent out of doors and 2 percent as nannies.

LIVING ABROAD

job because it creates administrative hassles for the employer." Nonetheless, the exchange's offices in Paris and Bonn report that French and German companies are showing increased interest in hiring American interns for the summer, provided they speak the language well and contact the companies as early as January.

Some American universities, such as Princeton and Northwestern, are organizing internships for their students at companies in Western Europe.

"German companies are used to the idea," said Kurt Gomerslag, director of Work in Germany, the exchange's office in Bonn, "because students who attend German

polytechnics have to work during the summer as part of their curriculum."

"For companies it is not selfless," he added. "It's cheap labor."

In recent years, American students participating in the Work in Germany program have found internships with Volkswagen AG, Siemens AG, IBM Germany, United Parcel Service, Merrill Lynch and large German banks.

Students participating in Work in France have found internships at Bank of Boston, Michelin SA, Rhone-Poulenc SA, Morgan Guaranty and international law firms.

According to the exchange's statistics, the more casual summer jobs have become remarkably easy to find, provided students speak the language of the country in which they are seeking employment.

Although every case is different, European employers often appreciate American students. "They are so polite," said Tony Goodge, who runs the Hollywood Arms, a trendy London pub, and

has four Americans working for him. "They're just beautiful people. It doesn't bother me that they can only work for a few months. I can always replace them with new students."

The managers of Boodles, the quintessential English gentlemen's club, have been hiring American students for the last two years because they are "always helpful, friendly, nice and chummy."

To obtain a summer job in Europe, American students must first apply for a temporary work permit. For an \$82 fee, the exchange guarantees temporary work permits in Britain, France, West Germany, Ireland, New Zealand and Costa Rica for eligible American students.

To be eligible, a student must be at least 18 years old, a permanent U.S. resident and enrolled in the degree program of an accredited American college or university. To apply for work in Britain, West Germany or Costa Rica, the student must also hold U.S. citizenship.

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SCIENCE

Cyclotron Illuminates Genius of Gutenberg

By Malcolm W. Browne
New York Times Service

THE birth of modern printing four centuries ago is cloaked in obscurity, but with the help of the cyclotron used to develop the atomic bomb, scientists are wrestling long-forgotten secrets from Gutenberg Bibles and other antique documents to reconstruct the technology of the Renaissance.

In cooperation with scholars at New York City's Pierpont Morgan Library and elsewhere, a group of researchers at the Davis campus of the University of California has learned that Johann Gutenberg of Mainz, Germany, was an even greater inventor and innovator than historians had known.

At Davis physicists and historians have pioneered a technique capable of probing the atoms making up paper, parchment and ink.

The German inventor of movable type around 1450 is one of the farthest-reaching technological achievements in history. Paradoxically, the earliest printers left no written descriptions of their monumental achievement. According to Paul Needham, curator of printed books and bindings at the Morgan (which owns three Gutenberg Bibles), no one knows what Gutenberg's printing press looked like. But Dr. Needham and the cyclotron team at Davis have learned a great deal about how Gutenberg and his associates worked and what materials they used.

Directing the cyclotron analyses of old documents is Thomas A. Cahill, head of the Crocker Nuclear Laboratory at Davis. "One of the most remarkable things we discovered in our five-year study," Dr.

Cahill said in an interview, "was that Gutenberg's genius extended to the formulation of inks as well as the development of movable type. Other printers of the late 15th century and printers even today tend to use inks based on oils and carbon black. But for Gutenberg, nothing but the best would do. We found within a few seconds of our first analysis of his ink that it is unusually rich in compounds of lead and copper. Lead and copper were Gutenberg's signature, and their presence in the ink on a document is as convincing a sign of his agency as his own hand would be."

Based on similar ink analyses, the Davis group has concluded that another Bible of the period, a 1455 papal letter of indulgence and a document known as the Sibyllenbuch Fragment, were all printed by Gutenberg's shop. The Sibyllenbuch Fragment, a page from a book of prophecies concerning the fate of the Holy Roman Empire, is believed by some scholars to have preceded Gutenberg's Bible, and would therefore be the earliest known document printed with movable type.

Dr. Cahill believes the high levels of copper and lead in Gutenberg's ink account for the fact that the printing in his books remains as fresh, glossy and black as it was when it came off his press. Bibliographers regard the Gutenberg Bible, printed between 1454 and 1456, as one of the most perfectly printed books, rarely matched in quality even in modern times.

Gutenberg's most famous work is his "42-line Bible," so called because nearly every column of type in its 1,286 pages is 42 lines long. Experts regard the workmanship in

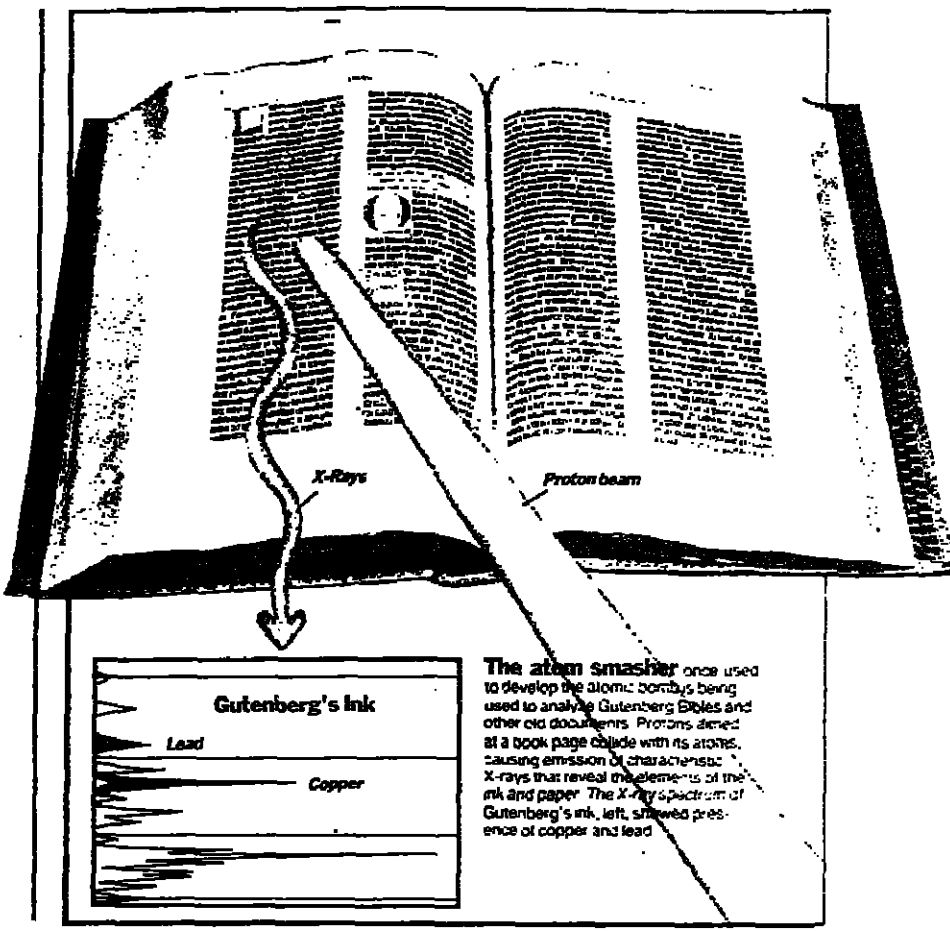
all of them as superb. The left and right margins of each of the two columns on each page are perfectly squared off, and Gutenberg avoided hyphenation by inconspicuously squeezing his type or spacing it.

Scholarly detective work has ascertained that 158 to 180 copies of the 42-line Bible were printed, of which 48 survive, each valued at many millions of dollars.

Dr. Cahill and Richard N. Schwab, a history professor at Davis, began applying the cyclotron to historical problems in the early 1980s as an outgrowth of the Crocker Laboratory's work on air pollution. The cyclotron accelerates a narrow beam of protons that pierces a sample, and protons collide with some of the atoms in the sample along the way. When this happens the atoms emit X-rays, whose varying energies match the specific types of atoms from which they were emitted. A detector measures these energies, and with this data a computer can determine the types and quantities of the elements present in the substance being studied.

Only the heavier elements can be measured this way, and the technique, particle-induced X-ray emission, cannot analyze the chemistry of a sample, Dr. Cahill said. But for examining rare documents the technique offers two valuable features: the proton beam is too attenuated to damage the sample, and the X-rays emitted by the sample provide a distinctive atomic signature to aid in identifying the substance.

The use of the cyclotron as an interpreter of history began when Dr. Schwab told Dr. Cahill of



problems he had encountered in distinguishing fake from genuine copies of the 18th-century encyclopedia published in France by Denis Diderot. Cahill made some tests with the cyclotron beam and soon realized that the atomic compositions it revealed could easily distinguish differences between seemingly identical inks and papers.

The analysis of Gutenberg documents required still subtler techniques, Dr. Cahill said. Although the signatures of Gutenberg inks depend on their copper and lead content, the quantities of these and other metals varied appreciably

from one batch of ink to another. Gutenberg's workers evidently compounded their inks according to a general recipe but may have been sloppy in their measuring. Similarly, the cyclotron can detect differences among the atomic signatures of various batches of paper (often bearing different watermarks) that Gutenberg used. A single Bible often contains pages from several different batches of paper that were printed at separate times.

By calculating how various inks and papers were combined in each volume, Dr. Cahill and his associates were able to reconstruct Gutenberg's manufacturing process

step by step. "There were times when we could almost hear Gutenberg's press creaking," he said.

This led to the realization that Gutenberg's workshop was much more sophisticated than many scholars had supposed, he said. The shop evidently employed a team of typesetters, all working simultaneously on separate batches of pages, carefully calculating space and text to make certain the assembled volume would come out exactly right.

These separately composed sections fit together almost seamlessly, but there are a few exceptions.

IN BRIEF

The Snail Darter Strikes Again

BENTON, Tennessee (AP) — The three-inch snail darter, notorious for holding up a Tennessee Valley Authority dam project, has added six months to the construction of a Hiwassee River bridge, officials say. Controversy over the brown and black fish halted completion of TVA's Tellico Dam for six years beginning in 1973. The darter, once found only on the Little Tennessee River where Tellico Dam is located, was transplanted to the Hiwassee River nearby to allow for completion in 1979 of the multimillion dollar dam. Construction time for the Hiwassee River bridge in east Tennessee's Polk County was extended to 24 months so the river would not be disturbed by workmen and equipment during the darters' egg-laying cycle in late April.

More Evidence of Earth Collision

NEW YORK (NYT) — Geologists have found strong new evidence to support the theory that a huge asteroid or comet collided with the Earth 65 million years ago and could have been responsible for mass extinctions of life, including the demise of the dinosaurs.

In a report in the journal Science, the geologists said that microscopic particles of quartz found in 65-million-year-old sediments around the world contained structural cracks associated with a single cataclysmic impact. The fracture patterns in the quartz, they said, appeared to rule out an alternative theory involving widespread volcanic eruptions as a cause of the extinctions.

The scientists said the "shocked quartz" crystals were found in eight widely separated places, from Europe to New Zealand, indicating a global phenomenon.

Chocolate Linked to Heartburn

CHICAGO (UPI) — Chocolate-lovers may be distressed by a new study that found the object of their affection, the renowned confectionary cure for heartache, is also a primary cause of heartburn.

Researchers at a meeting of digestive disease specialists also warned that a sweetener found in many fruit juices and sugar-free candies may promote intestinal distress in children. In people already prone to acid indigestion, even a few tablespoons of chocolate can induce the familiar irritation of the esophagus also known as heartburn, reported Dr. Donald Castell, chairman of gastroenterology at Bowman Gray School of Medicine, Winston-Salem, North Carolina.

People with chronic heartburn problems, which includes about 10 percent of the population, thus should probably avoid chocolate altogether, Dr. Castell reluctantly advised.

Koalas Suffer From Severe Stress

WASHINGTON (WP) — Koalas, the slow-moving Australian furballs that climb languidly about eucalyptus trees, are actually suffering severe stresses from overcrowding and depressed immune systems that leave them vulnerable to a variety of infections and high rates of pneumonia, leukemia and bone cancer.

In some areas, according to Steve Brown, a veterinarian at the University of Queensland in Brisbane, between 50 and 98 percent of the koalas are infected with parrot fever bacteria, which causes blindness, infertility and infections of the bladder and lungs.

Infertility poses a special hazard to the survival of the marsupials because their population is dwindling.

'Useful' Modes of Thinking Contribute to Prejudice

By Daniel Goleman
New York Times Service

IN seeking to understand the tenacity of prejudice, researchers are turning away from such extreme racism as that exhibited by members of the Ku Klux Klan to examine the pernicious stereotypes among people who do not consider themselves prejudiced.

A troubling aspect of the problem, they find, is that many stereotypes seem to be helpful in organizing perceptions of the world. One finding is that people tend to seek and remember situations that reinforce stereotypes, while avoiding those that do not.

Another troubling conclusion of the research is that simply putting people of different races together does not necessarily eliminate prejudice. For example, Walter Stephan, a psychologist at the University of Delaware, found in a review of 18 studies of the effects of school desegregation that interracial hostilities rose more often than they decreased at desegregated schools.

Overt, admitted bigotry is on the decline, studies indicate. Yet they reveal that a more subtle form of prejudice, in which people disavow racist attitudes but nevertheless act with prejudice in some situations, is not declining.

Such people justify prejudiced actions or attitudes with what they believe are rational, non-racist explanations. To those who have felt the sting of racial discrimination, the phenomenon is well known. An employer, for instance, may reject a black job applicant, ostensibly not because of his race but because the employer says he believes the person's education and experience are not quite right. Yet a white applicant with the same qualifications is hired.

Part of the difficulty in eradicating prejudice, even in those who intellectually see it as wrong, stems from its deep emotional roots. "The emotions of prejudice are formed early in childhood, while the beliefs that are used to justify it come later," said Thomas Pettigrew, a psychologist at the University of California at Santa Cruz. "Later in life, you may want to change your prejudice, but it is far easier to change your intellectual beliefs than your deep feelings."

Psychoanalytic theories, too, point to the importance of childhood experience. "We distinguish between the familiar and the strange early in infancy," said Mortimer Ostow, a psychoanalyst and professor of pastoral psychiatry at the Jewish Theological Seminary in New York. "Then in childhood, when we join groups, we learn to draw boundaries between us and them. By adolescence the group identity becomes even more important, and out-groups become the place to deposit our own faults."

The classic psychoanalytic literature on prejudice notes that a person's own sense of insecurity is often reflected in the need to find an out-group to despise, with the person's most loathed personality characteristics pushed onto someone else — thus, the "filthy" Jews or blacks, or Italians or whites. New work is adding to the theories.

Dr. Ostow and other psychoanalysts have studied people in treatment who explored their own anti-Semitic prejudices. "The inner dynamics are surprising," said Dr. Ostow. "We find that there almost always was a time in the past when

the prejudiced person was attracted to the other group. The prejudice is a later repudiation of that earlier attraction."

Often the attraction occurs in childhood or adolescence, according to Dr. Ostow. The child becomes fascinated by strangers, particularly by people in a group other than that of his own family. At the same time, though, the child may experience this as a betrayal of his family. The child then pulls back from the fascination, often after a rebuff or disappointment, or when he feels guilt at betraying his family. When the attraction happens later in life, the turning point is often rejection by a lover.

"The prejudice that forms symbolizes a loyalty to home and its values," said Dr. Ostow. "But it is built on a deep ambivalence."

Much of the recent work on prejudice has moved from a psychoanalytic view to a cognitive one, in which most prejudice is seen as the byproduct of the normal processes whereby people perceive and categorize one another.

THE new explorations of the cognitive role of stereotypes find them to be a distortion of a process that helps people order their perceptions. The mind looks for ways to simplify the chaos around it. Lumping people into categories is one.

"We all need to categorize in order to make our way through the world," said Myron Rothbart, a psychologist at the University of Oregon. "And that is where the problem begins: We see the category and not the person."

The tenacity of people's stereo-

types, both innocent and destructive, is a result of the pervasive role of categorization in mental life. And the stereotypes tend to be self-confirming.

"It is hard to change people's preconceptions once they are established," said Dr. Stephan, who is one of those doing the new research. "Even if you present people with evidence that disconfirms their stereotypes — an emotionally open and warm Englishman, say, who breaks your image of the cold, reserved English — they will find ways to deny the evidence. They can say, 'He's unusual,' or, 'It's just that he's been drinking.'"

In a study of a recently desegregated school, Janet Schofield, a psychologist at the University of Pittsburgh, found that many of the black students thought the whites considered themselves superior. When white students offered help to black students, the blacks often spurned the offers, seeing them as a confirmation of the attitudes they attributed to the whites.

And research by David Hamilton, a psychologist at the University of California at Santa Barbara, shows that people tend to seek and remember information that confirms their stereotypes. So, a black who sees whites as haughty and unfriendly may notice more and remember better the whites who have acted that way than those who were warm and friendly. And if, for example, white people avoid black people, there is little opportunity for receiving information that might upset their stereotypes.

Even people who profess not to be prejudiced often exhibit subtle forms of bias, according to research

by the psychologists Samuel Gaertner of the University of Delaware and John Dovidio of Colgate University.

Many national surveys have shown, for example, that the racial attitudes of whites have become markedly more tolerant over the last 40 years. But other research suggests that "although the old-fashioned, 'redneck' form of bigotry is less prevalent, prejudice continues to exist in more subtle, more indirect forms." Dr. Gaertner and Dr. Dovidio assert in "Prejudice, Discrimination and Racism," published recently by Academic Press.

"People who believe they are unprejudiced will act with bias in some situations, but give some other, rational reason to justify the prejudiced act," Dr. Gaertner said in an interview.

According to research by John McConahay, a psychologist at Duke University, this more subtle form of prejudice is marked by ambivalence and exhibits itself most often in ambiguous situations where racism does not seem to be at issue. In one experiment Dr. McConahay found that whites who scored highest on a test of this subtle racism tended to reject more

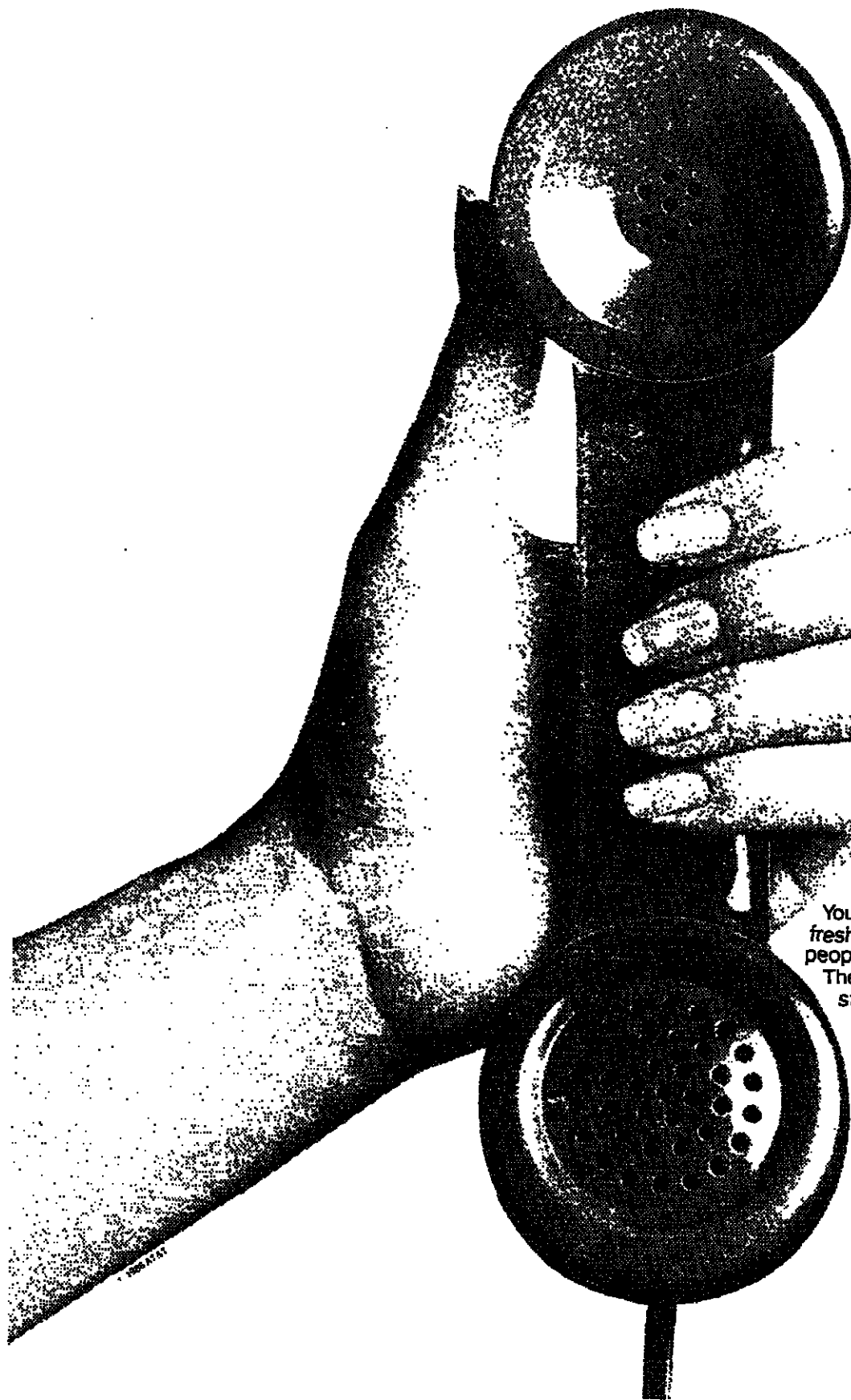
black applicants than white ones for a hypothetical job, though the applicants' qualifications were identical.

Some experts say social or historical facts play a role in justifying prejudice. Thus in the Southwest, negative stereotypes of Hispanic people fit traits often ascribed to migrant laborers, a role many Hispanic people held for decades. "America is full of realities from 350 years of discrimination against blacks that make blacks, in the minds of some, seem to be at fault when actually they are victims," said Dr. Pettigrew.

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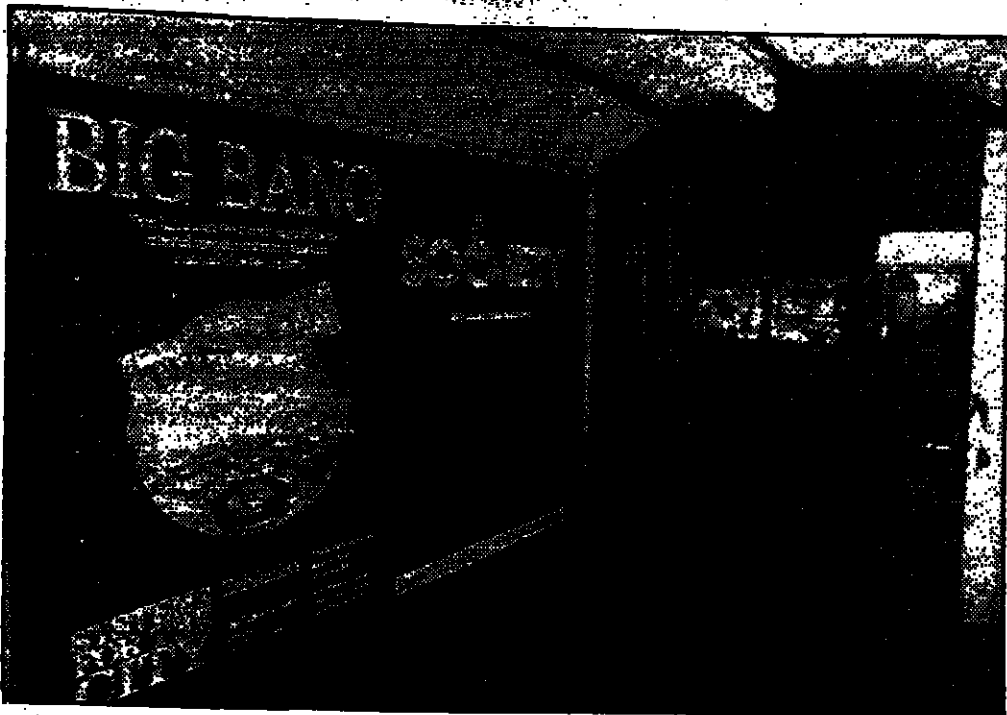
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While investors like cheaper commissions and the variety of instruments being offered, they complain that service to customers is the big loser in deregulation.



George De Keeler/Comme

Big Bang Fallout

Front-Office Glitter Dulled by Glitches

By Janet Porter

LONDON — Institutional investors and corporate clients are far from satisfied with the standard of service they are receiving from many City of London financial institutions.

Six months after Big Bang, when Britain's securities markets were liberalized, back-office operations of some firms remain a shambles, the quality of research provided by others has fallen lamentably and market makers do not always offer the best price, according to critics.

This is not to say that all the comment is negative. Commissions charged to big investors have fallen sharply, from an average 0.4 percent before Big Bang to around 0.2 percent now. A considerable amount of business is being transacted on a net noncommission basis. Much larger block trades are possible and many fund managers took advantage of the cheaper dealing costs immediately after Big Bang to restructure their portfolios.

Like corporate treasurers are being wooed with all sorts of new financial products and acquisition proposals from investment houses hungry for their business.

Nevertheless, reservations and misgivings about the new-style financial markets persist. During the hectic years before Big Bang, there was so much pressure on banks, stockbrokers, stockjobbers and other financial institutions to merge with the right partners, recruit new staff, install electronic trading systems and find suitable premises that little attention was given by many to what is arguably the most important area of all — the demands of the customer.

Since October, the pressure has switched to earnings and the need to start showing a swift return on their huge investments, forcing many firms that have never before had to cope with deregulated markets to cut back wherever possible in order to stay afloat. But this short-term approach looks certain to be disastrous in the longer term, as powerful customers become disenchanted and take their business elsewhere.

Although the widely anticipated bloodbath has not yet happened, largely because of booming stock markets, many securities and investment houses are struggling to survive in a marketplace described by participants as "brutal."

The large increase in equity turnover in recent months, helped by the post-Big Bang boom in portfolio restructurings and overseas demand for pound-denominated securities, has certainly made the transition easier. Trad-

New products and prospects abound, but the competition is 'brutal.'

ing skills probably will not be fully tested until the arrival of a bear market — something many players on both sides of the marketplace have never experienced.

So far, there has only been one casualty. Midland Montagu, the investment and securities arm of Midland Bank, closed down the equity market-making operations of Greenwell Montagu Securities in March after suffering trading losses of £6 million (about \$10 million).

While no other firm has, as yet, taken such a drastic step as Midland, a shakeout is nevertheless occurring.

A number of houses are reducing the range of stocks in which they will make a market and some have already withdrawn from whole industry sectors. In the British government securities (gilts) market, only about a dozen of the 27 approved primary dealers are really active, with the rest having just a tiny share of the business.

Some of the United Kingdom's biggest fund managers say they have already stopped dealing with certain institutions where conflicts of interest were suspected. In-house analysts in several firms are known to pass on, buy or sell recommendations to their market-making departments some days before sending out circulars to their institutional clients.

"There are certain to be more casualties unless clients are prepared to put up with a third-rate service," said David Malcolm, chief investment manager at Royal Insurance, one of Britain's top insurance companies with an investment portfolio of about £9 billion.

He says he is unhappy with a number of aspects of Big Bang, notably serious delays in the completion of back-office paperwork and falling standards of research.

These views are shared by Mick Newmarch, chief executive of Prudential Portfolio Managers Ltd., a subsidiary of Britain's largest institutional investor, Prudential Corporation.

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JANET PORTER is the European bureau chief for the Journal of Commerce.

Gilts Soaring, Buoyed by Confidence in Conservatives' Prospects

By Kevin Muehring

LONDON — It is hardly surprising that a talk on the British government debt market during a recent conference here focused almost entirely on the re-election prospects of Prime Minister Margaret Thatcher's Conservative Party in the elections set for June 11.

In the first two months after last October's Big Bang when dual-capacity trading and the elimination of fixed commissions swept away the old system and ushered in a restructured government debt, or gilt-edged market, slack retail demand and uncertainties over sterling translated into lackluster demand and trading volumes. Most of the primary players turned in losses and a few had already accumulated

KEVIN MUEHRING is a contributing editor of Institutional Investor magazine.

substantial losses in a pre-Big Bang euphoria for market share.

But since the turn of the year, volume has soared, nearly doubling to an average turnover of £3.5 billion (\$5.77 billion) a day, according to Bank of England statistics. The upswing in trading volumes enabled most of the firms to eke out a modest rise in profitability. And it was almost entirely premised on growing investor confidence that the Conservatives will be returned to power.

Despite widely anticipated bloodbaths in the newly revamped gilt-edged market, none of the 27 designated primary market makers in the market has dropped out — yet. The pundits are still betting the store that a shakeout among the 27 will turn 1987 into a make-or-break year for many firms.

In the U.S. Treasury market, for instance, there are only a handful more dealers — about 35 institutions in the primary end of the market — but they are dealing in a market with five times the size and 20 to 30 times the trading volume. There is more than \$1 trillion out-

Volume is crucial to profitability, and winning market share has been the dominant strategic attack.

standing in the U.S. Treasury market, while gilts amount to less than \$200 million; \$100 billion to \$150 billion worth of Treasuries can change hands in a single day in New York, compared to the equivalent \$5.5 billion or so of gilts in London.

A survey conducted among British institutional investors in January by the agency-broker Capel-Cure Meyers showed that nearly half believed that fewer than 15 of the 27

primary market makers would survive the first three years of competition.

It is enough to make a logical mind question why anyone would so willingly enter such a doom-laden scenario. But many firms feel they have no choice.

In the race to be a major first-tier player in what is seen as a developing global capital market, the need to service a previously sheltered domestic client base, much less to win a

slice of the international institutional client base, means that the financial firms must extend their capabilities to each of the main financial markets.

Gilts are at the heart of the London market and London is one of the three key financial hubs in the global marketplace.

The major international financial intermediaries are also increasingly arbitraging the interest rate differentials among the big three freely traded government debt markets through the use of the more sophisticated financial engineering of the last few years. Synthetic instruments can be created that offer higher yields.

Previously, the gilts market was structured around the Bank of England's direct dealing with a half dozen jobbing or trading firms, dominated in fact by just two jobbers, with a combined capital of £100 million, who sold the government gilts onto the stockbrokers who had access to the largely British-based institutional client base.

Since Big Bang, the Bank of England deals directly with 27 dual-capacity market makers

with a combined capitalization of £600 billion, 14 of which are either American or Swiss and Canadian owned. Six interdealer brokers, taking 1/128th percentage point on each turn, are adding liquidity to the market by increasing the volume of intraprofessional trading. In exchange for direct access to the Bank of England and the issuance of British debt securities, the 27 primary players are committed to continuous two-way market-making in fair or foul markets.

This month, further changes were made in the structure of the market. The Bank of England launched a limited auction system to supplement its present "tap" system of issuing government debt in which £1 billion of short-dated gilts were auctioned. Larger auctions of medium- and long-term bonds will be offered later in the year.

The Bank of England stresses that the auction will be limited, not necessarily to replace the tap system but to supplement it in the

Continued on page 12

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BANQUE INDOSUEZ. A WHOLE WORLD OF OPPORTUNITIES

Sinking Under a Sea of Paper

Pressure Grows on Bankers, Brokers to Clean Up Their Back Offices

By Flaminetta Rocco

LONDON — The success of the new City conglomerates that have spent millions building vast new dealing rooms to take on the challenge of global equity trading is being threatened not only by the competitive challenge of New York and Tokyo, but by a danger that is much closer to home. This is the growing pressure on the back office to ensure that each order for each security is digested, invoiced, cleared, paid for and delivered.

At its best, an efficient back office settlement system should perform all these tasks on time and with perfect reliability. The reality six months after Big Bang is far from this ideal. And banks and brokers are worried that, unless they get their back offices straightened out soon, the heavy investments they have made in the new front office electronic dealing rooms will be lost.

The pressure now facing back offices is being applied from several fronts. Historically, the settlements end of a broking partnership was always treated as the poor relation of the fee-earning side. As a result, investment in new systems was insufficient and staff in those departments always poorly paid.

But the increased competition engendered by the start-up of net trading and the abolition of fixed commissions has forced firms to streamline their administration systems. Some of the software for this technology was imported from the United States, but there was little time to adapt it properly to the British market or to firms' specific needs.

Moreover, these changes came at a time when trading volumes were at an all-time high and increasing every week, prompted in part by the Conservative government's privatization program and its championing of share ownership.

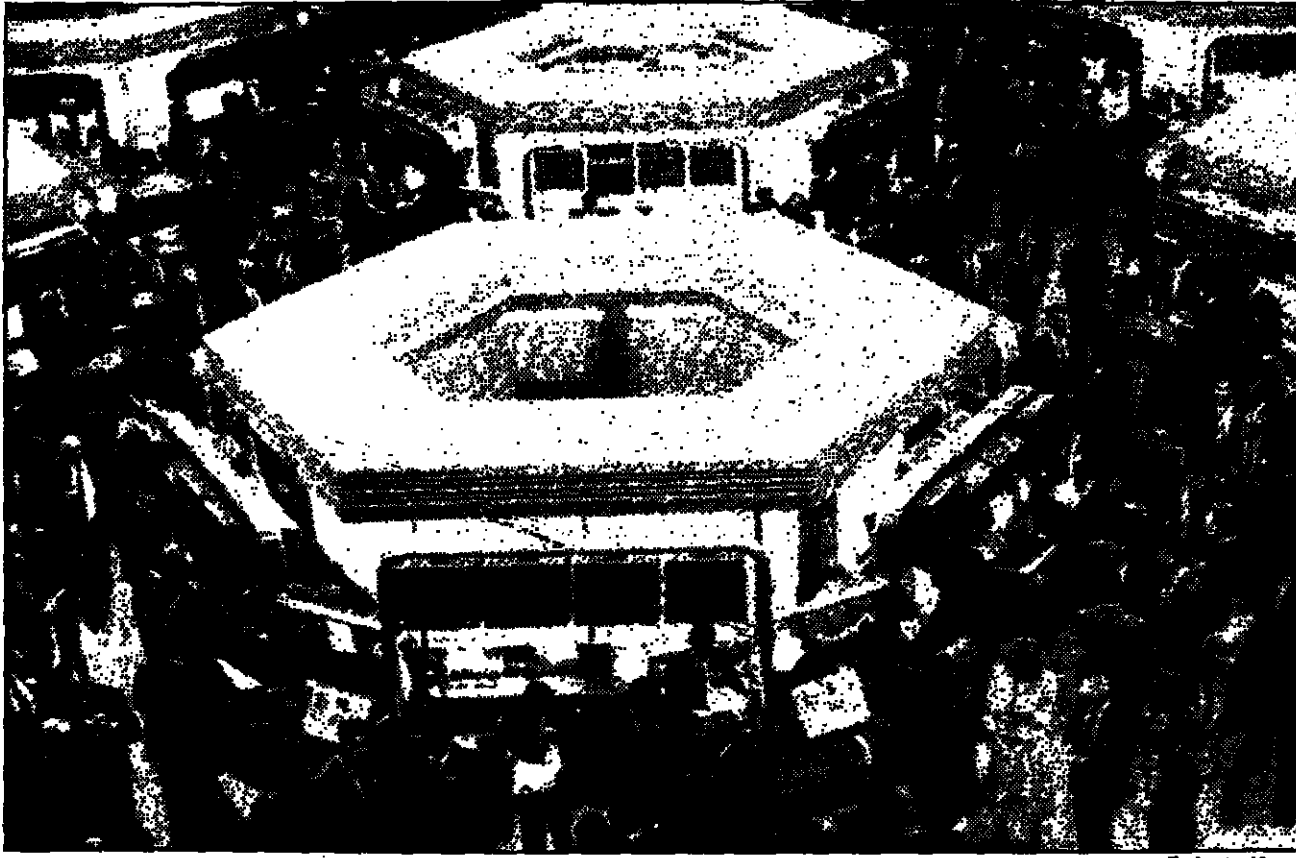
Three times as many people owned shares in 1986 than when Prime Minister Margaret Thatcher came to power in 1979, and the stock exchange now processes about 40,000 trades a day, compared with just over half that a year ago.

Furthermore, each major privatization increases trading volumes by 25 percent over the initial two-month period.

The infrastructure for trading, when it works, is relatively simple, if detailed. Securities dealers date-stamp trades as they are done. Buy and sell orders of British shares are then entered onto the dealing firm's computer tapes that are deposited every evening into the stock exchange's Talisman computer system, where they are matched against the counterparty's orders.

Before being transferred to their new owners, these shares are gathered together within SEPON, the stock exchange's nominee account, which acts as a pool from which stock is delivered to the registrar. Invoicing and payment collection in most cases is done by the firms themselves.

Dealing firms had four types of computerized settlements procedures to choose from when preparing for Big Bang. They could rewrite their own software from scratch, buy packaged software from a specialist firm, use



Since Big Bang, trading on the London Stock Exchange has been computerized.



Traders and dealers look at empty screens during a computer breakdown.

The stock exchange now processes about 40,000 trades a day, compared with just over half that a year ago.



Working behind the scenes in electronic security trading.

the services of a settlements bureau for billing and paying clients and for clearing securities, or go to one of the two all-in clearing firms that perform all these functions.

All of these options have suffered from strain since the day of Big Bang, Oct. 27. Most firms opted for a combination of buying software and having it tailor-made for their internal administration as well as using a settlements bureau for matching bargains and entering them into the Talisman system.

The closure of National Westminster Bank's Center-file settlements bureau last September forced 19 brokers and jobbers to make new arrangements and vastly increased the pressure on the bigger of the two remaining firms, NMW Computers, which now clears 40 percent to 50 percent of stock exchange trades each day.

NMW chose to change over to a new hardware system around the time of Big Bang, but, according to several players in the market, their system becomes overloaded several times a week and their input into the Talisman computer is up to three hours late two days out of three.

Even more severe problems exist within the

firms themselves. Most of those that opted for developing a more extensive in-house network turned to a small but growing software house, Consultants (Computer & Financial) (CCF). However, many put in their software orders very late and have since been dissatisfied with the service they have received.

One major British clearing bank, which bought a stockbroker as part of its investment for the post-Big Bang era, says it has counted 123 design faults since October in the system CCF installed. As a result, this bank has had to double its staff in the settlements department and it is still operating a round-the-clock schedule seven days a week to clear the backlog.

Among the problems this bank and other dealers are facing are unreconciled deals where there may be a buyer but no seller, trades that do not match either in price or size, lost transactions; buy orders that are misquoted as sales, or vice versa, and mismatched accounting.

"It's a real mess," said a settlements director for one of the major brokers.

In recent weeks, some dealers have been so keen to keep the worst of the situation from their clients that they will pay clients selling shares out of the firm's own account instead of waiting to receive the remittance owed to them from on-selling those shares.

Known in the trade as a "fail" or a "break," this out-of-pocket payment would normally be expected on fewer than 5 percent of trades.

"We're seeing fail rates of more than 15 percent," said the director of one of the major clearing banks.

None of the firms reported to be in trouble would confirm their difficulties. Nonetheless, Kleinwort Grieson, one of the biggest players in the market with a much publicized personal share dealing service, was forced first to raise its charges from £12 (\$20) to £18 per transaction and then close the service altogether.

Those that insist that the pessimists are doing no more than spreading doom and gloom about the gravity of the settlements problem in the City need only look back to the difficulties that New York dealing houses faced after deregulation there in May 1975 and the paperwork panic during the go-go years in the late 1960s.

Then, galloping volumes and weak systems forced the stock exchange to close one day a week for several months in order to clear the settlements backlog, and two major firms, unable to get over the problem, closed for good.

FLAMMETTA ROCCO is a financial journalist based in London. Her article, "The Peril in the Back Office," which appeared in the June 1986 issue of the Institutional Investor, was part of a series on the City that won the Overseas Press Club's Merton Frank award last month.

Glitches Dull Front-Office Glitter

Continued from page 9

which controls investment funds of more than \$30 billion.

He told a recent conference that he was "greatly concerned" by the back-office problems being experienced by many broker-dealers. He remarked on the "discernible deterioration in the general quality of research since October 27." He also strongly criticized brokers' research efforts for paying scant regard to the real needs of clients, with too much emphasis placed on the alpha stocks and too little effort put behind the internationalization of research.

Fund managers are retaliating by transacting a far greater share of business on an agency basis, happy to pay commissions to those brokers offering the best service.

In the weeks immediately after Big Bang, institutional investors were mostly dealing on a net basis directly with market makers. Royal Insurance estimates that this accounted for about 60 percent of its equity trading last year.

However, as it became apparent that this was not always the most effective or efficient way of trading, Royal's fund managers started to do more business through brokers again. Now about 75 percent of equity trading is conducted on an agency basis, according to Mr. Malcolm.

Corporate treasurers are equally critical of the advice they receive from some investment banks. One of Britain's biggest industrial concerns spoke of being "bombarDED" with fund-raising proposals by bankers who have "no real understanding of our needs."

Others complain of the short-term horizons of those working in the City and the widely divergent objectives between financial institutions that can profit most from volatile markets and industry that needs market stability.

Many of the complaints are fully justified, senior bankers concede. And there are already clear signs that the emerging heavyweights are those investment and securities houses paying the closest attention to what their customers have to say.

"We take our research capability very seriously — we would never try to pull a fast one on our clients," says Mercury International, the group that encompasses the merchant bank S.G. Warburg and Warburg Securities, formed from the merger of three top Stock Exchange firms — Akroyd & Smithers, Rowe & Pitman and Mullens & Co.

The group is now dominating certain market sectors and gaining clients such as the Euro-tunnel consortium and British Petroleum because of its ability to provide a fully integrated financial capability.

"More and more clients are beginning to like the idea of one-stop shopping," according to a Mercury spokesman, while the firm has found it very useful to have the full range of financial skills under one roof.

But those firms that decided against the financial supermarket route are not necessarily losing out. Stockbroker James Capel resisted the idea of building up an equity market-making operation, although the company is an approved primary dealer in gilts, and is now benefiting from the swing back to broker business. Capel has noted a 30 percent increase in equity trading volumes compared with the level of business prior to Big Bang.

Peter Quinlan, Capel's chairman, says the firm is often able to negotiate a better price than the institutional investors can obtain. As fund managers start to recognize this, they are



more willing to pay commissions for added value service.

While noting that the decision to stop making a market in equities was "a major disappointment," Keith Brown, managing director of Greenwell Montagu Securities, is confident that the quality of service offered to clients will not slip.

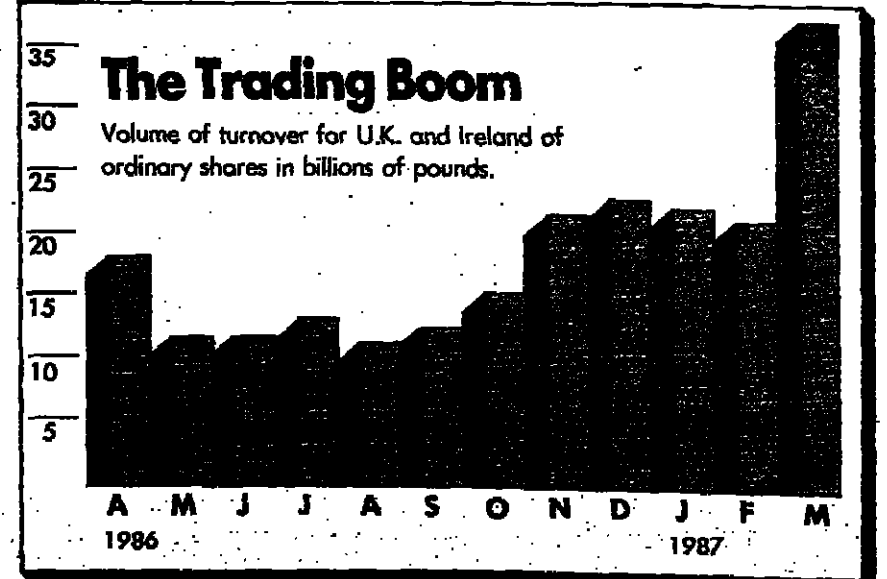
Struggling to cope with massive losses incurred by its California subsidiary, Crocker National Corporation, Midland was unable to devote sufficient financial or management resources to its Big Bang preparations and very quickly decided to close down the unprofitable side rather than risk another financial embarrassment. Greenwell Montagu is now concentrating on providing top quality personalized service to corporate customers and believes that without the market-making operation, clients will be more confident that investment advice is totally unbiased and that every effort will be made to negotiate the best possible price.

As other houses, in a less dramatic fashion, follow in Midland's footsteps and run down loss-making operations and focus on those areas where they are strongest, the polarization will become increasingly pronounced.

Most participants expect London's securities market to gradually evolve along similar lines to New York's and Tokyo's. About half a dozen major players are emerging in particular sectors — not so very different from the way stock exchange business was transacted before Big Bang, when single capacity requirements separated stockbroking and stockjobbing functions and prevented one firm from undertaking both types of business.

Opinion is divided on whether this process will be quick or gradual, but there is little doubt that a thinning-out process is inevitable. Geoffrey Redman-Brown, senior director at Phillips & Drew, a subsidiary of Union Bank of Switzerland, reckons that the survivors are most likely to be those concerns that have successfully invested resources in all four vital areas — people, technology, office space and capital.

But a final note of caution is sounded by Gordon Pepper, senior adviser to Midland Montagu. He believes that for the last few months London has been in a phony-war period. Neither the U.S. nor the Japanese securities houses have started to compete properly yet, he says, but it is probably only a matter of time before they adopt a higher profile. That is when the war will really start, he adds.



Source: London Stock Exchange

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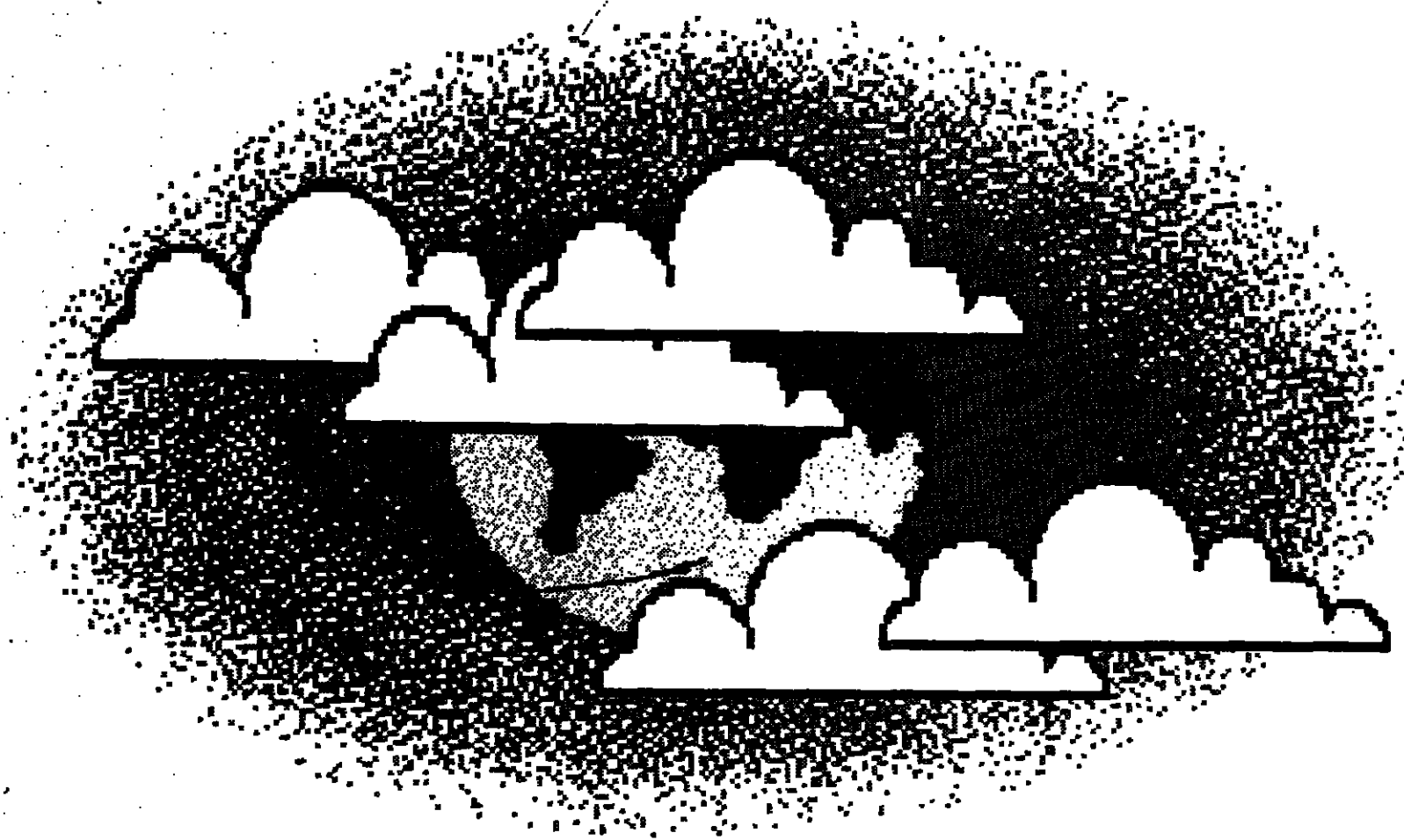
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Technology and the Rules

Eurobond Dealers Reject Screen Trading

LONDON—On Tuesday, the Association of International Bond Dealers (AIBD) announced that it had withdrawn plans to introduce a screen trading system for the Eurobond market for the time being. Opposition from the market's leading players—who feared that if they freely displayed their prices their smaller competitors would feed off their business—had proved overwhelming and the issue had threatened to completely dominate proceedings at the AIBD's annual general meeting in Oslo next week.

But the central problem will not go away. The AIBD wants the status of a recognized exchange under the framework of Britain's new Financial Services Act, and the Securities and Investments Board, the regulatory overseer of the network of self-regulatory organizations in the London financial markets that will be fully operative with its powers later this year, has made it clear that price transparency will be its main criteria in assessing how institutional markets are serving investors.

The AIBD has already set up a system of reporting dealers, by which to qualify as a recognized market-maker in Eurobond issues a house has to meet certain criteria in its trading, such as dealing in a specified proportion of outstanding issues and posting daily prices for them. But the scrapping of the screen trading plan—which for a year has been the subject of a joint feasibility study with the U.S. National Association of Securities Dealers—could prove a severe setback in the longer term to the association's ambition to regulate itself.

There is an irony in these developments, which are primarily geared to improving the transparency of market prices, the SIB's primary concern in protecting investors in this predominantly institutional market. If Big Bang can be described as the process by which the London stock exchange poached business from other markets around the world through deregulation, then it was foreshadowed for many years by the growth of the unregulated and truly international Eurobond market, which chose London as its home because of its happy accident of time-zoning and the



Stock exchange officials Sir Nicholas Goodison, right, and Jeffrey Knight, with a computer terminal on Big Bang Day in October.

freedom it offered banks to do business in the market.

To stay in London, the Eurobond market has to be seen to be doing the regulatory line. But there are many of its members, notably the Belgian and Luxembourg banks, which fail to see why they should, especially when their own home markets would be the first to benefit from any exodus from London.

The very idea of complete price transparency that screen trading would have implied would be anathema to the Eurobond market, where huge trading volumes are based on price discrepancies and the arbitrage of different credit assessments.

These are issues concerning the way business is done in the Eurobond market that may tax the AIBD. However, there are perhaps more fundamentally important changes occurring in the business itself. First and foremost, the 40 percent decline in the value of the U.S. dollar since the Group of Five agreement and the specter of rising American interest rates has drastically reduced the proportion of dollar fixed-income and floating rate note (FRN)

issues launched in the market. During the first quarter of this year only one-third of international bond issuance was denominated in dollars.

The FRN market has all but collapsed, its sudden demise foreshadowed late last year by a crisis of confidence in perpetual or undated floating rate notes when Japanese investors (the major holders of perpetual notes along with underwriting houses still carrying them on their books) started selling. Some issues, which like all FRNs are supposedly designed to trade at par value, declined in value by as much as 30 percent.

The major sovereign and bank borrowers have now deserted the FRN market as a whole, to the extent that some bankers speculate about a revival of the syndicated loan market, which the FRN replaced in the tidal wave of securitization of recent years. In the first three months of 1987, only \$1.9 billion of new FRN issues have been launched, a mere 4 percent of all new international bond issuance. Last year, Britain alone raised \$6.5 billion in the FRN market.

On the other hand, the Euroyen market has been on the rapid ascendant, boosted by the yen's appreciation and the Japanese Ministry of Finance's continuing program of deregulation for the market. A total of \$8.95 billion equivalent of yen-denominated international bond issues were launched during the first quarter of this year, firmly establishing the yen as the No. 2 Euro-market currency behind the dollar, in which a total of \$20.16 billion of issues were launched.

The prime beneficiaries among the Eurobond houses have been the Japanese securities houses. Nomura now sits atop the Eurobond lead management tables, displacing Credit Suisse-First Boston, the pre-eminent Eurobond house of recent years. The other three major international Japanese securities houses—Daiwa, Yamaichi and Nikko—are all in the top 13. They are now pushing the idea that Euroyen issues should be registered for sale direct into the Tokyo market, avoiding the six-month lock-up period that prevails. Such a development would only serve to reinforce the underwriting strengths of the Japanese houses.

It seems unlikely that all of the Eurobond market's established houses will be able to cope with these changes. Over the past few months a clutch of Eurobond houses have decided to give up market-making status in Eurobond instruments in favor of acting only on an agency basis. Others have announced that they were pulling out of market-making in certain sectors, as with Orion Royal Bank's departure from the FRN market earlier this year. Still others are repositioning themselves to take better advantage of more lucrative developing markets such as that for internationally traded equity stocks.

But the Eurobond market is nothing if not innovative. When Japanese investors ditch the dollar, they look for other high-yielding debt instruments to replace it. That has left scope so far this year for prolonged spurts of activity in the Euro-Canadian dollar, Eurosterling and the Euro-Australian dollar sectors, where coupons offer substantial yield pickups for investors over dollar bonds.

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Brokers in the City enjoying a champagne lunch after a hectic trading session.

Volume Soars on Gilts Market

Continued from page 9

hopes of gaining from the best aspects of each. Many feel, however, that it is inevitable that the auction will eventually wholly supplant the tap system.

The great thing about the tap system is that the British government decides when and at what price an issue of debt is sold into the market. A fixed price is set and tender offers are accepted. Issues are not always wholly allocated at launch, and the unsold portion goes back "on the shelf" and is then trickled out into the secondary market in blocks of varying size on a "tap basis" when the Bank of England feels market conditions are ripe.

The drawback is that one market maker with muscle could corner the whole tap, or if the tap is too small, it would be difficult to divvy it out to all 27 market makers. Furthermore, the government cannot always be sure of a regular source of cash.

An auction does not allow the luxury of controlling the price and timing, but at least assures the Treasury the cash will be there. Auctions will also provide the full flavor and benefit to the government of greater competition among the financial intermediaries, namely lower interest costs and a wider distribution of its debt.

The new structure of the market has already produced some benefits to the investor community. Institutional investors say the market is now more liquid, deals are said to be more efficiently executed and dealing spreads have narrowed. And best of all from the investor point of view, commissions were quickly slashed to nearly nothing.

But at least until the competition is driven out of the market leaving the strong to survive, what is good for the borrower and investor is not so good for the intermediary. Under the old system, the profits of the brokers came from the fixed commission they charged to their clients to buy the stocks from the jobbers. The jobbers in turn made their money from the modest markup on each turn as they passed the stock on to the brokers and in positioning their inventories long or short a step ahead of the market.

In the new market, commissions are either nil or minuscule, with about 90 percent of the trading on a net basis. Profits for the 27 market makers will now almost entirely come from positioning inventories ahead of interest rate movements or by constructing sophisticated swaps and arbitrage opportunities for their clients.

Volume, then, is crucial to profitability and winning market share has been the dominant strategic attack on the gilt market. U.S. firms benefit from extensive experience in the massive U.S. market, where an auction system may give them the edge if the Bank of England turns nose to this system. The American firms are also better versed in arbitrage and risk management than their British competitors. But the Americans seriously lack a distribution and placement base for the securities. Old client loyalties have not died, and the mainline British conglomerates, especially Barclays de Zoete Weld and Mercury International, which swallowed the two jobbing firms that had dominated gilts trading prior to Big Bang, still seem to be holding their own. The makeup of the primary market makers may eventually come down to a dozen or more players.



A jobber taking a break off the floor.

with no more than six to eight firms playing a really dominant role and the remainder taking up niche positions on the fringes of the market, such as in short-dates gilts or index gilts or in servicing a particular segment of the investor pool.

There is a glimmer of light on the otherwise gray and gloomy horizon. The U.S. Treasury market figures suggest that there is ample room for the gilt-edged market makers if they and the big institutional investors simply turn their inventories over at a faster rate. At least half the turnover in the United States is purely among the professional houses and the specialist brokers.

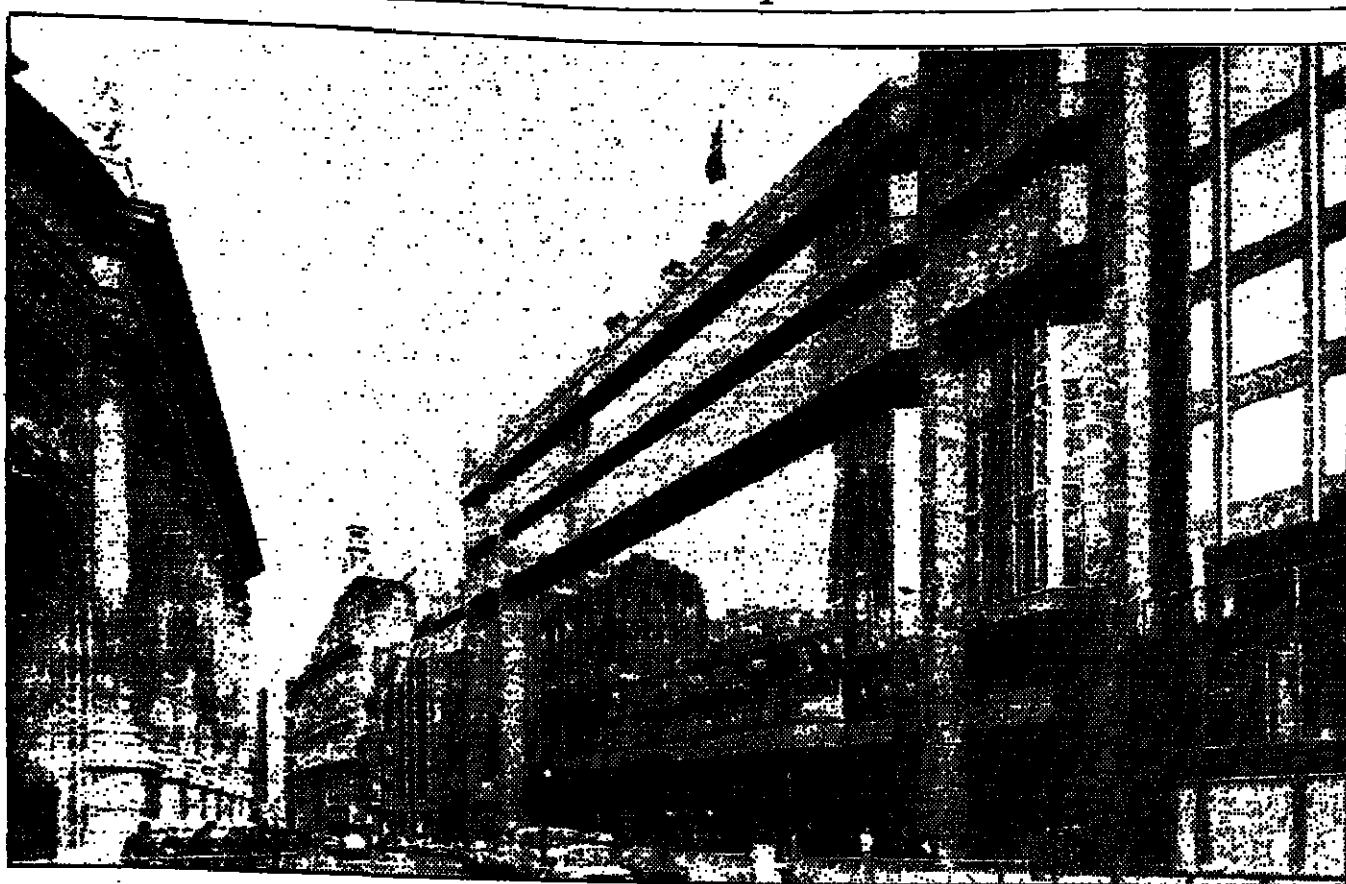
In London, six interdealer brokers, who provide the liquidity in the trading between the primary market makers, will play the same function.

The sophisticated use of options and futures to hedge large positions and—or at least so the theory goes—lower the risk, means the market makers can hold even larger positions and trade even faster.

But ultimately, survival will much depend on the continued internationalization of the gilt market. Sterling volatility, largely due to political uncertainties, has traditionally caused international investors to shy away from the gilt market. But if the Conservatives are returned to office, pent-up international demand, especially among the Japanese anxious to diversify out of the dollar, could well mean that the volumes will indeed soar, broaden the investor base and create room for more of the market makers to survive.

John G. ...

Mergers and Acquisitions



Standard Chartered was the only one of Britain's five major clearing banks to report lower pretax profit in 1986. Lewis Photos Ltd.

Standard Awaits Lloyds Action

By Warren Getler

LONDON — The fate of Standard Chartered PLC, Britain's fifth largest clearing bank, continues to be the focus of speculation in the City. Having rebuffed a hostile bid from Lloyds Bank PLC last July, Standard may once again come under attack from Lloyds in three months' time following the expiration of a mandatory one-year cooling-off period imposed under British law, City analysts said.

To bid or not to bid, that is the dilemma for Lloyds. The consensus among analysts in the City is that Lloyds is not going to lunge for Standard immediately after the July 12 cooling-off deadline. Then again, Lloyds might ultimately decide not to bid at all.

There are several reasons for Lloyds taking a cautious line.

First, the Bank of England has been conducting an investigation of lending practices at Standard — at the request of Standard's board. The Bank of England, which began its investigation in February, is exploring press allegations that suggest Standard was involved in imprudent lending to the National Bank of Brunei beginning last April, about a week after Lloyds launched its takeover bid.

Standard Chartered has denied all such allegations and insists on having its name cleared by the Bank of England investigation.

The allegations suggest that the losses may have been covered by support role in Standard's defense against Lloyds played by Malaysian financier Tan Sri Khoo Teck Fatt, whose family owns more than 70 percent of the National Bank of Brunei.

Last November, the Brunei bank was shut down by Brunei authorities. Officials in both Brunei and Singapore early last year had warned creditor banks, including Standard Chartered, that the Bank of Brunei was under suspicion for questionable accounting practices.

If Standard's credit line to the Bank of Brunei were shown to be directly linked to Mr. Tan Sri Khoo's role in Standard's successful defense against Lloyds, banking sources here say, that could amount to a criminal breach of Britain's Companies Act.

Bank of England officials have said that they do not expect to conclude their investigation until year's end. Sources close to the bank have said privately, however, that they do not expect to discover any illegality, such as a breach of

the Companies Act, by Standard. Yet, they do not discount the possibility that Standard will be censured for "imprudent" lending to the Bank of Brunei.

If Standard is censured, market sources say, there will be strong pressure on Michael McWilliam, Standard Chartered's managing director, to resign. Mr. McWilliam declined to be interviewed.

"Lloyds won't go back for Standard Chartered until the Bank of England concludes its inquiry," said Alan Broughton, a banking analyst with Greenwell Montagu Securities in London.

Mr. Broughton, echoing other analysts, also notes that "the quality of Standard's business" has declined since the Lloyds bid last year.

If no renewed bid from Lloyds materializes, Standard's share price is apt to drop precipitously.

suggesting that Lloyds may in the end not be interested in bidding at all at current Standard share prices.

Standard was the only one of Britain's five major clearing banks to report lower pretax profit in 1986. Standard's profit before tax dropped 5.2 percent to £253.9 million (\$431.7 million) from £267.9 million in 1985.

Whether Lloyds does launch a second bid will depend largely on the price being asked by members of a triumvirate of friendly shareholders.

The triumvirate, which came to the defense of Standard last July against predator Lloyds, includes Tan Sri Khoo, who increased his holding in Standard on May 1 to 7.24 percent from 6.2 percent; Sir Y.K. Pao, the Hong Kong entrepreneur believed to control just under 15 percent, and Australian magnate Robert

Holmes & Court, with a stake matching that of Sir Y.K. of almost 15 percent.

Current market wisdom here is that Lloyds will have to offer somewhere near £9 a share to obtain the substantial stakes of any one of these three minority shareholders and thereby open the gates to a full takeover.

But with Standard's current share price hovering around 835 pence, just 15 pence below the 850 pence per share cash offer by Lloyds last year, there is considerable doubt whether Lloyds will feel such a price is justified.

There is also some doubt that Sir Y.K., a Standard board member who has been a supporter of Standard's extensive presence in Asia for years, is anxious to see Lloyds obtain control of Standard at any price.

Moreover, speculation has grown that Mr. Holmes & Court has ambitions of his own for Standard, where he also sits as a board director. Australian brokers have been suggesting that the Australian business maverick is out to merge Standard Chartered with Hill Samuel, the British merchant bank, in which he has also acquired a substantial minority stake. How he would arrange the seemingly awkward marriage is anybody's guess.

In the end, if no renewed bid from Lloyds materializes, Standard's share price is apt to drop precipitously and leave the triumvirate with considerable losses on their Standard investments.

Mr. Broughton, the Greenwell Montagu analyst, said that the group paid an average 830 pence per share for their stakes in Standard last summer. "The only thing keeping the current price of Standard's shares at such high levels of 830 pence is the continuing speculation that Lloyds will come in and bid at a price higher than what it offered in July 1986," he said.

"But if that doesn't happen, we could see Standard's share price plunge to £7, leaving some heavy paper losses."

In the meantime, Standard officials have let it be known that their chief priority is improving profitability, particularly in Asia, and that they will not allow themselves to be preoccupied with market talk of another takeover bid by Lloyds.

But as one analyst, who asked to remain anonymous, put it: "In the long run, Standard won't have the option of remaining independent if it cannot generate a higher level of profit."

WARREN GETLER is the International Herald Tribune's staff correspondent in London.

Scandals Fail to Stem Takeovers

By Jeff Ferry

LONDON — The recent series of financial scandals in the City of London, including the Guinness affair, is having a surprisingly small impact on the city's takeover boom, according to the major players in the market.

Figures compiled by the Acquisitions Monthly magazine show that in the first quarter of 1987, there were 55 new public bids, compared to 51 in the same period of 1986. However, the total value of the bids, at £2.9 billion (\$4.9 billion), was substantially less than the comparable figure for 1986, £7.8 billion.

"There was a momentary slowdown in activity in December and January, when the Guinness scandal first broke," said Philip Healey, editor of Acquisitions Monthly, "but since then, it has picked up. In April alone, there were 20 announced bids."

Hostile takeover bids, however, have been much less in evidence. Some investment bankers attribute this to their political sensitivity, suggesting that there will be an upsurge in hostile bids once the impending general election is past.

Morgan Grenfell, the merchant bank embroiled in the Guinness affair, remains the league leader so far this year, handling 14 bids in the first quarter.

In January, three Morgan executives, including the chief executive, Christopher Reeves, resigned over the bank's involvement with Guinness. The new chief executive, John Craven, assumed the reins on May 5.

Richard Webb, head of corporate finance at Morgan's since January, foresees little change in the bank's aggressive approach to mergers and acquisitions.

"We have always felt very strongly that we must try our hardest for our clients, and I don't think that will change dramatically," he said.

"Perhaps there will be a bit less emphasis on the star system, and a bit more of a team effort, but it's really only a question of fine tuning," he added.

Mr. Webb said that he did not expect this year's total takeover activity to equal the 1986 figures, which he said were exceptionally high.

"In terms of corporate finance profits, 1986 was an annus mirabilis," he said. "I expect total fee income to be significantly less this year, widely across the City."

British bankers said that American investment banks were making smaller inroads into

Top 5 U.K. Takeovers

Following are the five largest takeovers within the United Kingdom, by value, in 1986:

ACQUIRING COMPANY	TARGET	VALUE
Guinness PLC	Distillers Co. PLC	£2.7 bil.
Hanson Trust PLC	Imperial Group PLC	£2.4 bil.
Habitat Mothercare PLC	British Home Stores PLC	£1.5 bil.
Vantona Viyella PLC	Coats Patons PLC	£0.73 bil.
British & Commonwealth PLC	Exco International PLC	£0.67 bil.

British merger activity than many had feared a year ago.

"The Americans do not seem to have been so noticeable so far this year," said Michael Gatenby, head of corporate finance at Charterhouse, Charterhouse captured the No. 2 spot in merger and acquisitions rankings for the first quarter, an achievement that Mr. Gatenby attributed to "a lot of hard work in getting close to the large, acquisitive companies."

Richard Kelly, head of First Boston's London mergers and acquisitions group, agreed that American investment banks are taking a gradual approach to the British market.

"In the long term," he said, "if you do well with your clients and prove your expertise, you build up business. We like to think our style lends itself to complementarity with a U.K. merchant bank."

Mr. Kelly cited recent First Boston successes, including working with British merchant bank Samuel Montagu on Argyll Foods' £660 million acquisition of the Safeway supermarket chain, and with Hill Samuel on Beechams' divestiture of its home improvements division.

Mr. Kelly said he thought the scandals and investigations were among the factors hastening a swing back to "relationship banking," away from the highly competitive "transaction banking" climate of last year.

"Clients are putting a premium on trust, confidence and a long-term commitment from a bank," he said.

Evidence from another Acquisitions Monthly survey suggests that insider trading in London is still going on. A study of price movements in 100 bid target companies during the second half of 1986, in the four weeks before the bids being announced, revealed that in 23 cases, the stock rose by more than 20 percent. Some price movements were as much as 40 percent.

"Some of it you can understand as guesswork," Mr. Healey said, "but the rest you can't. These figures show that insider dealing is still flourishing."

A British Department of Trade investigator recently said publicly that he knew of two separate insider dealing "rings." He said one of them had made profits of £10 million. Charges have yet to be announced.

"The Acquisitions Monthly data is very good circumstantial evidence of insider dealing," commented a senior regulatory official who asked not to be identified.

JEFF FERRY, a financial journalist based in London, is a regular contributor to The Washington Post.



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Foreign Exchange Market

Rewards High for Strong of Heart

By Ken Ferris

LONDON — The foreign exchange market in London dwarfs other centers around the world — and that includes New York and Tokyo.

The main players in the London market have consolidated their positions through investment in high technology equipment and the high-flying traders who use it.

The Bank of England has estimated that the average daily foreign exchange turnover in London is \$90 billion. That compares with \$50 billion in New York and \$48 billion in Tokyo.

The real strength in the London interbank market lies with the large domestic banks. A recent survey by Euromoney magazine shows that Barclays Bank has taken over the top position from Chemical Bank.

There are no published figures showing bank earnings from foreign exchange in individual money centers. But London's dominant position in the foreign exchange arena means that each bank does a large proportion of its business — and, therefore, earns a sizable chunk of its foreign exchange profits — in the City.

For banks who make the right calls, the payoffs are considerable. Citicorp, the largest banking group in the United States, accounts for the lion's share of the world currency market.

Barclays, the largest European bank in the business, also boosted earnings last year to £123 million (\$209 million) from £113 million in 1985. Midland Bank's return jumped to £110 million in 1986 from £80 million the previous year.

The profits boom follows the decision by most of the major banks in the early 1980s to make a large investment in the equipment and personnel needed to run an increasingly sophisticated and technology-dependent dealing operation.

The foreign exchange business in London is now firmly driven by interbank trade rather than customer demand. This means that the key component in any bank's trading strategy is the skill of its human capital.



The Bank of England found that trading in futures and options accounted for only 1 percent of daily average volume in London.



The London branch of Algemene Bank Nederland.

dollar rise to 3.45 Deutsche marks and 263 yen in February 1985 before falling to current levels of less than 1.80 marks and 140 yen under the weight of record U.S. trade deficits.

Volatility may have increased, but the risk of loss isn't as great as it was in the early 1980s, said Steve Mazloumian, senior manager with responsibility for options and special products at Barclays Bank.

risks now than they were a few years ago," noted Michael O'Brien, managing director of foreign exchange in London and Europe at Goldman Sachs, the U.S. investment bank that has established itself among the upper echelon in the foreign exchange business.

"In periods of greater volatility people don't take the same positions. This means they are more likely to be able to handle it," he added.

The investment banks have been drawn into the foreign exchange business in London and other major centers because the growth in their capital markets activity has made it necessary for them to transact the currency side of a growing number of deals.

The major commercial banks do not see the investment banks as a threat. Indeed, some argue that their presence has boosted liquidity in the London market.

"The market has grown as a whole so they aren't taking business away from us," said Robert Loewy, foreign exchange manager at Chemical Bank in London.

Nevertheless, competition for corporate orders in the London market is tough. The presence of large numbers of banks willing to make markets in most of the major currencies has forced them to trade on finer margins and narrower spreads as they bid to attract business from sophisticated customers.

Some banks are even prepared to quote prices on which they actually lose money so they can hold onto customers or increase volume. However, most of the major banks believe "buying business" is a short-term strategy that rarely pays dividends.

"Some of our competition have begun to make markets on such ludicrous prices that they can pick up corporate business," said Mr. Loewy. "The problem is they do it once and then lose the customer. We have retained our position in the market by quoting consistently."

The advent of increasingly sophisticated foreign exchange related instruments, such as futures, options, swaps and a range of hybrids, from participating forwards to compound options and reversions, has also alerted the authorities to the dangers of trading in off-balance sheet items.

The Bank of England imposes limits on the exposures that banks may take in the market, while the banks themselves adhere to their own daytime and overnight limits. But the question of how to cope with exposures caused by trading in the newer instruments is of increasing concern to the regulators.

The importance of off-balance sheet financial instruments in the foreign exchange business is often overstated, however. The Bank of England found that only 1 percent of daily average volume in London was accounted for by futures and options. Spot transactions contributed 73 percent of turnover and forward contracts out to one year represented 26 percent.

KEN FERRIS is editor of Euromoney Treasury Report.

POINT OF VIEW

City Meets Challenge Of the Big Bang Era

By Lord Boardman

LONDON — I see the Big Bang and its aftermath in the City of London in a global context and part of the evolution of the financial services industry. New advances in technology, shifting patterns of global capital flows and a plethora of new financial instruments had all heightened the pace of liberalization in the major international financial markets of the world.

So it was only a matter of time before financial assets became as easily traded and moved around the world as any other commodity.

London has successfully taken up that challenge and, with Tokyo and New York racing neck and neck to become the largest equity market in the world, the City has reaffirmed its claim to be the leading financial center in the European time zone.

In fact, the process of deregulation in London has been faster and more courageous than in any other financial market. As a result, it is the most cosmopolitan center and, probably, the most competitive. There are more than 460 foreign banks in London — more U.S. banks, it is said, than in New York City — and they are competing with British banks, securities houses, insurance companies and other institutions for corporate and private business.

At this point, there is no discernible decline in the City's attractions for financial services operators, and its future — like that of the banking industry — looks demanding but good.

A central role in that future is occupied by the application of sophisticated electronics. Indeed, my office close to the heart of the City is within what must be one of the greatest concentrations of electronic hardware in the world, which each working day sustains and fuels London's international market business.

But while the flashing screens have helped to stimulate the City overall, they have claimed at least one major casualty. The floor of the London Stock Exchange is now no longer the bustling hub of securities trading. Instead, screen dealing rules.

The needs of corporate and private customers have changed, too. Today's corporate treasurer has to be offered a wider range of financial options and providers of such services need a more specialist, flexible, global approach. That often means finding solutions from the capital markets as opposed to traditional sources of credit. I do not, however, see the concept of relationship banking being overhauled. On the contrary, I see the introduction of a capital market capability as one that complements our mainstream commercial banking activities.

In the personal sector, the surge of interest in share ownership in Britain coincides with a desire by financial institutions to take a fresh look at the way in which people's investment needs are served.

A very encouraging aspect of the recent wave of stock market flotations has been the number of first-time investors. In less than two years, the size of the shareholding public has doubled. With new investors and new institutions in the marketplace, the need for effective regulation and supervision has become paramount.

In London, the principle of self-regulation within a statutory framework forms the cornerstone of government policy for the new markets. Self-regulation is, I believe, a more mature approach in that responsibility for upholding standards falls firmly on the shoulders of the financial community itself. Additionally, the ability to handle business with

only a minimum of bureaucratic hurdles is an established strength of the City's markets that has enabled growth and encouraged the flexibility necessary for fast-moving global transactions. I have no doubt that London as a financial center can only thrive if it upholds this principle and retains its reputation for honest dealing and integrity.

The issues surrounding regulation and supervision, of course, go beyond the domestic situation in the United Kingdom. With global financial markets, the question of supervision is also global. Central banks around the world have to ensure that the financial system remains robust, particularly as innovative financing techniques become more widespread. The risks have to be identified and managed.

The risk-management challenges of the post-Big Bang era have, rightly, been seen as new opportunities by the British banking community and have opened up business avenues from which there is no turning back.

Deregulation has been faster and more courageous here than elsewhere.

The recent joint U.S. and U.K. consultative paper on capital adequacy signals a major step forward. The overall aim is not to create complete harmony in the rules that each country applies, but to set minimum standards.

My own view of the accord between the Bank of England and the Federal Reserve Board, which covers the definition of what should be regarded as capital and how it should be measured, is that it is a step in the right direction. But I do have a few reservations. In Britain, the issue of capital adequacy has never been purely mechanistic. By adopting minimum standards for primary capital we should not ignore the virtues of the subjective and qualitative way in which the Bank of England has approached supervision in the past. The Bank of England should not be tempted to tip the balance in favor of across-the-board mandatory capital ratios.

I hope that the authorities in other parts of Europe and in Japan will consider using the U.S.-U.K. proposal as a basis for formulating a multilateral approach; the proposal was not intended to be an exclusive arrangement.

Changes in the financial services industry have brought new challenges for supervisors, financial institutions and customers all around the world. Deregulation has created a climate of intense competition not just for institutions but also competition between financial centers. I am convinced that London has the unique concentration of people with financial skills, institutions with immense capital strength and an unparalleled sophistication in techniques — human and electronic — that are required for markets today and in the future.

LORD BOARDMAN is chairman of National Westminster Bank PLC.

Diversification, Growth in Eurocommercial Paper

By Krystyna Krzyzak

LONDON — The Eurocommercial paper market has been one of the London-based Euro-market success stories. By the end

of 1986, programs totaling \$60.75 billion had been signed, compared with \$29.6 billion the year before and only \$12.6 billion in 1984.

Outstandings (the amount actually drawn on those programs) were around \$30 billion, more than double the amount 12 months earlier.

A wide spread of borrowers is now tapping this market. They include industrial corporations, insurance companies, bank holding companies and sovereigns, such as Denmark, with a \$1 billion program, and Belgium, which recently announced an unlimited program.

In terms of announced programs, U.S. entities continue to dominate the market, accounting for nearly 30 percent of it. Many of these view their programs as a funding alternative to the U.S. commercial paper market and in a large number of cases did not use the Euromarket to any significant extent because U.S. rates have been substantially cheaper.

However, Eurocommercial paper has advantages for U.S. borrowers beyond an occasional cheap cost alternative. Large borrowers set up a facility to finance its merger with Sperry Corp. It chose Eurocommercial paper in preference to its domestic market because publicly offered U.S. com-

mercial paper cannot be used to finance acquisitions.

Eurocommercial paper is not the only short-term instrument occupying the attention of the London financial community. Last April, sterling commercial paper was launched, a market for which many British corporate treasurers have been lobbying intensely.

This has seen a more modest growth, with around 45 announced programs by the end of last year, totaling around £3.5 billion (\$5.9 billion) in volume but £520 million in borrowings. Sterling commercial paper has been fraught with legal and tax problems, with many see as over-

enthusiasm by the authorities to prevent the paper from landing in the hands of the nonprofessional investor.

Sterling commercial paper also faces competition from the bankers' acceptance sector, one of the cheapest — and subsidized — sources of short-term finance

available to British companies, partly because of its use by the Bank of England as a tool of monetary policy.

Bankers' acceptances are particularly competitive in the one- to three-month tenor, and notably so toward the end of the calendar year, which accounted for the tailoff in sterling commercial paper borrowings in December 1986, down from a peak of £700 million the previous month.

Not all British companies are eligible to use bankers' acceptances, which require an underlying trade transaction (property and insurance companies, for example), and these were among the first to announce programs. That said, the market has proved particularly popular with the British retail companies, which have seasonal short-term cash requirements that the instrument can easily satisfy.

Both the Eurocommercial and sterling commercial paper markets have provided hotbeds of competition for the London-based dealers, with a high degree of prestige at stake. In the Eurocommercial paper market, in particular, around 80 institutions are involved in one or more programs, compared with six investment banks that have the lion's share of the U.S. market.

Dealerships in the Eurocommercial paper market are concentrating, however, among the top 10 to 15 banks. And while the market has not seen anything resembling the post Big Bang re-entrainment among some equities market makers, borrowers are beginning to review their bankers more stringently.

Last year, Merrill Lynch was dropped by the Australian Wheat Board and Den Norske Creditbank, and Credit Suisse First Boston lost its place on Prudential Funding Corp.'s and Commonwealth Bank of Australia's facilities. These banks are, however, among the leading dealers in the market.

In a high-volume, low-margin business, success is ultimately determined by the investor base that the banks have built up.

In the past, many survived by taking paper into their inventories and selling it when interest rates fell. That escape route is now closing, and the market is now being viewed as a long-term placement. The shakeout long predicted by many of the leading houses may not be that far away.

KRYSZYNA KRZYZAK is deputy editor of Euromoney Corporate Finance.

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U.S. entities account for nearly 30 percent of market.

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KRYSZYNA KRZYZAK is deputy editor of Euromoney Corporate Finance.

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Recovering From Perpetual FRN Fiasco

By Jeff Ferry

LONDON — The constant development of new instruments and the adding of the proverbial "bells and whistles" to existing financial instruments that has characterized the Euromarkets in recent years is continuing, London bankers say. This is despite the serious setback of February's liquidity crisis in the perpetual floating rate note market.

An unexpected rush to sell perpetual FRNs that began in November 1986 and culminated in a seizure of the market in February made the \$18 billion face value of perpetual FRNs unmarketable. Estimates of the losses run as high as 18 percent, or \$320 million.

According to David Andrews, a director at IBCA Banking Analysts, Japanese banks, holding around two-thirds of the FRNs, were the hardest hit. The underwriters of the notes, including the London banks Morgan Guaranty, Salomon Brothers and Credit Suisse First Boston, are also rumored to have taken significant losses.

Mr. Andrews believes the significance of the perpetual-FRN fiasco is that many of the new instruments could carry risks that are not properly appreciated by the marketplace.

New instruments are priced with a lot of high-powered math and computer models to estimate the risks, he said. But when reality struck and nobody would deal in them, it proved that the calculations were all nonsense, he added.

"What it shows is that you can have the most elegant mathematics in the world, and until something goes wrong, you don't actually know what the risks are," he said. G. Edwin Smith, underwriting manager at Prudential Bache, said that since the perpetuals crisis, innovation is on the decline.

"The market is searching for things that have a running yield and that you can sell if you want to, that you won't find yourself having to hold onto for the rest of your life," he said.

He cited losses on so-called harmless warrants and on Australian dollar bonds as other examples of investors' getting burned by innovation. Charles Berman, vice president of Citibank's new issues syndication department, disagrees.

"Investors are always interested in something that has value," he said. Mr. Berman added that demand has been strong for currency warrants, notably in the dollar/yen and dollar/Deutsche mark market.

"When people feel exchange rates have reached a critical point or a turning point," he said, "a currency warrant can be a cheap way of hedging against a currency movement or of taking a punt on it."

HE said he anticipated major growth in the market for Euro-medium-term notes in the months ahead.

"Euro-medium-term notes will change the way people handle their medium-term assets, just as Eurocommercial paper revolutionized the way investors handle their short-term assets," he said.

"The Euro-medium-term note market is now at the same stage the Eurocommercial paper market was at two years ago," he added.

John Lawrence, swaps and options trader at Paribas, was also bullish on the new instruments.

"Interest in new instruments in the past six months" he said, "is probably greater now than at any time in the past couple of years. With interest rates low, investors are keen on anything that can improve returns above a straight conventional bond."

Mr. Lawrence cited strong interest in currency and gold warrants and a rapid

growth in the market for tradable caps on dollar and Deutsche mark debt.

"A cap is a synthetic way of creating a long-term fixed rate," he said. "It gives liability managers the ability to borrow six-month money and protect themselves against interest rate rises for two to seven years out."

Richard Sharp, underwriting manager at Goldman Sachs' London office, said that the perpetuals crisis has had a significant but limited impact on investor psychology. "There is still ample room for innovation in places where the market has been relatively unimaginative," he said.

"We did a \$500 million floating rate note for the Prudential, which was a collateralized mortgage obligation (CMO), and it was very successful," he said. "Since then CMOs have taken off, right through the crash in the [perpetuals] market."

Traders argued that the perpetuals collapse was a special case.

"The concept on [perpetuals] was fundamentally wrong," said Mr. Berman of Citibank. "There was too much supply too soon, and what wasn't stuffed down the throats of Japanese banks was left on dealers' books. That's always a dangerous situation."

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Republic of Finland

U.S. \$200,000,000

7⁷/₈% Notes due 1997

MORGAN GUARANTY LTD	GOLDMAN SACHS INTERNATIONAL CORP.
NOMURA INTERNATIONAL LIMITED	UNION BANK OF SWITZERLAND (SECURITIES) LIMITED
ALGEMENE BANK NEDERLAND N.V.	BANK OF TOKYO INTERNATIONAL LIMITED
BANQUE BRUXELLES LAMBERT S.A.	BANQUE INDOSUEZ
BANQUE NATIONALE DE PARIS	CITICORP INVESTMENT BANK LIMITED
CREDIT COMMERCIAL DE FRANCE	CREDIT SUISSE FIRST BOSTON LIMITED
DAIWA EUROPE LIMITED	DRESNER BANK AKTIENGESELLSCHAFT
EBC AMRO BANK LIMITED	IBJ INTERNATIONAL LIMITED
KANSALLIS BANKING GROUP	MERRILL LYNCH CAPITAL MARKETS
SAMUEL MONTAGU & CO. LIMITED	MORGAN STANLEY INTERNATIONAL
ORION ROYAL BANK LIMITED	POSTIPANKKI
PRUDENTIAL-BACHE SECURITIES INTERNATIONAL	SALOMON BROTHERS INTERNATIONAL LIMITED
SWISS BANK CORPORATION INTERNATIONAL LIMITED	UNION BANK OF FINLAND LTD
S.C. WARBURG SECURITIES	WESTDEUTSCHE LANDESBANK GIROZENTRALE
	YAMAICHI INTERNATIONAL (EUROPE) LIMITED

28th January, 1987

All of these securities have been sold. This announcement appears as a matter of record only.



Kingdom of Sweden

U.S. \$250,000,000

7% Notes Due 1992

	MORGAN GUARANTY LTD
BANK OF TOKYO INTERNATIONAL LIMITED	BANKERS TRUST INTERNATIONAL LIMITED
BANQUE BRUXELLES LAMBERT S.A.	BANQUE PARIBAS CAPITAL MARKETS LIMITED
CITICORP INVESTMENT BANK LIMITED	CREDIT SUISSE FIRST BOSTON LIMITED
DEUTSCHE BANK CAPITAL MARKETS LIMITED	ENSKILDA SECURITIES ENSKILDA SECURITIES LIMITED
GOLDMAN SACHS INTERNATIONAL CORP.	MERRILL LYNCH CAPITAL MARKETS
MORGAN STANLEY INTERNATIONAL	NOMURA INTERNATIONAL LIMITED
SALOMON BROTHERS INTERNATIONAL LIMITED	SHEARSON LEHMAN BROTHERS INTERNATIONAL
SVENSKA HANDELSBANKEN GROUP	SWISS BANK CORPORATION INTERNATIONAL LIMITED
UNION BANK OF SWITZERLAND (SECURITIES) LIMITED	S.G. WARBURG SECURITIES

12th February, 1987

All of these securities have been sold. This announcement appears as a matter of record only.

Republic of Austria

U.S. \$200,000,000

7³/₄% Bonds due 1997

MORGAN GUARANTY LTD	LTCB INTERNATIONAL LIMITED
CREDITANSTALT-BANKVEREIN	GENOSSENSCHAFTLICHE ZENTRALBANK AG VIENNA
GIROZENTRALE UND BANK DER OSTERREICHISCHEN SPARKASSEN AKTIENGESELLSCHAFT	OSTERREICHISCHE LÄNDERBANK AKTIENGESELLSCHAFT
CREDIT SUISSE FIRST BOSTON LIMITED	DAIWA EUROPE LIMITED
DEUTSCHE BANK CAPITAL MARKETS LIMITED	MERRILL LYNCH CAPITAL MARKETS
MORGAN STANLEY INTERNATIONAL	NOMURA INTERNATIONAL LIMITED
ORION ROYAL BANK LIMITED	SALOMON BROTHERS INTERNATIONAL LIMITED
SWISS BANK CORPORATION INTERNATIONAL LIMITED	UNION BANK OF SWITZERLAND (SECURITIES) LIMITED
S.G. WARBURG SECURITIES	

15th February, 1987

All of these securities have been sold. This announcement appears as a matter of record only.

EUROFIMA

Société européenne pour le financement de matériel ferroviaire

ECU150,000,000

7⁵/₈% Notes due 1994

	MORGAN GUARANTY LTD
BANK OF TOKYO INTERNATIONAL LIMITED	BANQUE BRUXELLES LAMBERT S.A.
CREDIT COMMERCIAL DE FRANCE	SWISS BANK CORPORATION INTERNATIONAL LIMITED
ALGEMENE BANK NEDERLAND N.V.	BANQUE PARIBAS CAPITAL MARKETS LIMITED
BERLINER HANDELS- UND FRANKFURTER BANK	CREDIT SUISSE FIRST BOSTON LIMITED
DEUTSCHE BANK CAPITAL MARKETS LIMITED	EBC AMRO BANK LIMITED
GENERALE BANK	IBJ INTERNATIONAL LIMITED
ISTITUTO BANCARIO SAN PAOLO DI TORINO	MERRILL LYNCH CAPITAL MARKETS
MORGAN STANLEY INTERNATIONAL	NOMURA INTERNATIONAL LIMITED
SOCIETE GENERALE	UNION BANK OF SWITZERLAND (SECURITIES) LIMITED
S.G. WARBURG SECURITIES	YAMAICHI INTERNATIONAL (EUROPE) LIMITED

10th February, 1987

All of these securities have been sold. This announcement appears as a matter of record only.

WALL STREET WATCH

Steel Stocks Begin to Show Their Mettle on Wall Street

By VARTANIG G. VARTAN

NEW YORK — When LTV Corp., the second-largest U.S. steelmaker, filed a bankruptcy petition last July, shock waves went through an industry already facing intense price competition and sluggish demand.

But investors who scrapped steel issues last summer might regret that decision now. Last week, the stocks of Bethlehem, Inland and USX — along with shares in Arco and Lukens, among others — traded at their 52-week highs.

This turnaround reflects surging orders and higher prices, along with a steady decline in steel-making capacity, all of which have vastly improved some companies' earnings outlook. Money managers, furthermore, are purchasing commodity-related stocks that stand to benefit from a whiff of inflation as well as a cyclical upturn in the economy.

Investors who sold steel issues last summer might rue that decision now.

Wall Street analysts, too, have been taking a more kindly look at the industry. Last week, Smith Barney, Harris Upham & Co. Baker, the firm's domestic oil analyst, USX now derives more than 70 percent of its revenues and cash flow from oil, thanks to its ownership of Marathon Oil and Texas Oil & Gas. One major company problem last year was the decline in oil prices.

Since Smith Barney is bullish on oil stocks as well as cyclical stocks, USX would appear to be a natural choice. Mr. Baker set a target price in the mid-\$40s for the stock over the next 18 to 24 months. On Tuesday, USX closed at \$37.25 on the New York Stock Exchange, compared with \$14.50 last August.

Prudential-Bache Securities also likes USX, calling it a "formerly moribund steel giant that has transformed itself into an asset-rich, well-managed and competitive diversified energy company." The firm estimates that per-share earnings will leap from 75 cents in 1987 to \$2.80 next year.

Michelle Galanter Applebaum, the steel analyst at Salomon Brothers, first put USX on her buy list in mid-January at a price of \$24. The long United Steelworkers strike against USX ended in February and the new contract, Ms. Applebaum said, "provides for significant cost advantages versus USX's competitors" and should allow USX to be profitable by the third quarter of 1987.

But Charles A. Bradford of Merrill Lynch recently jumped off the USX bandwagon, after favoring its purchase for a time in 1986. "As stock prices move up, I like to lower my ratings," he said. "When things look attractive in the steel industry, these stocks respond quickly. But I think you should buy them when prospects are bleak."

Peter F. Marcus of Paine Webber issued two recommendations last week. The analyst went from "neutral" to "buy" on Inland Steel, which he regards as a low-cost producer with considerable operating leverage. Inland closed Tuesday at \$31.25, compared with \$14.50 last July.

He also strongly recommended Bethlehem Steel "as a trade," because of its even greater sensitivity to swings in steel prices. "But I kept Bethlehem at a neutral rating," he said, "because the company has more than \$60 a share in retiree liabilities for pensions and group insurance." Bethlehem Steel was up to \$14.625 Tuesday from \$4.625 in December, but still below its \$22 trading price in March of last year.

Inland is the other steel stock — recommended last November at \$20 — that Ms. Applebaum favors. She, too, cites Inland's operating leverage and estimates company earnings at \$3.28 a share for 1987 and at \$4.99 next year.

Mr. Bradford, the Merrill analyst, names Arco (at \$12.125 on Tuesday from \$4.125 last year) as his current favorite. The company lost money from 1982 to 1986, but the analyst estimates profits this year at 50 to 75 cents a share and \$1 a share in 1988.

U.S. Sales Rose 0.1% In April

Meager Gain Surprises Many

WASHINGTON — U.S. retail sales inched up a meager 0.1 percent in April, the Commerce Department reported Wednesday. Some economists said the sluggish growth reflected the cautiousness of consumers who are short of spending money.

Analysts had been predicting an increase closer to 0.6 to 0.8 percent. The March sales figure, however, was revised upward to 0.8 percent from the 0.2 percent earlier reported. Some experts said that the higher March figure may have absorbed some of the expected April gain.

Auto sales were down 0.9 percent from March levels, while sales of furniture and home furnishings were down 1.4 percent. Nonauto sales were up only 0.4 percent.

Some economists said that the report not only showed a tiny gain, it showed it in the wrong places — in food and gasoline sales, where the increases reflect rising prices rather than more spending.

In the more important areas of durable goods, consumers stayed away. They were buying fewer cars and less furniture, apparently unwilling to shoulder more debt for discretionary purchases.

"It's a pretty weak report. Very weak, as a matter of fact," said Michael K. Evans of Evans Economics, a Washington consulting firm. "I really think that consumers have given up. They don't have the money, and they're not borrowing anymore. Wages and salaries are not keeping up" with prices.

The White House spokesman, Martin Fitzwater, maintained without elaboration, "Retail sales are looking good."

While the month-to-month figures showed little movement, the department said longer-term figures were more encouraging.

April sales were 5.9 percent above April 1986 levels, with car sales up 5.4 percent and nonauto sales up 6.0 percent.

In a separate report, the Federal Reserve Board said Wednesday that one in five U.S. banks posted losses last year and many of the others suffered declining profits, mostly because of bad farm and energy loans.

By comparison, the study said, only 4 percent of banks had losses in 1979, 8 percent in 1982 and 17 percent in 1985.

(AP, UPI, Reuters)



One of several auction rooms at the Aalsmeer flower market in the Netherlands.

Computers Bloom in Flower Trade

Dutch Automate Their Markets to Maintain Exports

By Ronald van de Krol

Special to the Herald Tribune
AALSMEER, Netherlands — Every weekday morning, in the time it takes most budding flower arrangers to craft one floral display, 12 million cut flowers and one million house plants will change hands in a cavernous auction hall in this town outside Amsterdam.

Similar scenes are repeated at smaller auctions throughout the country.

Ever since the tulip was introduced into their country from Turkey more than 400 years ago, the Dutch have ruled the world flower market as firmly as Britannia once ruled the waves. To protect that dominance into the next century, they have turned to a relatively new tool — the computer.

Every weekday at 10 A.M., in the "high-tech" flower auctions around the country, computers sort, catalog and otherwise track consignments of roses, tulips and orchids and speed them on their way to all-important export markets.

Each year, Aalsmeer alone processes 900 million roses in 80 varieties, 250 million tulips, 200 million chrysanthemums, and 120 million million carnations, not to mention millions of begonias, poinsettias and azaleas.

Without the aid of computers, auction officials say, the market would be overwhelmed.

"We'd have no hope of keeping track of the flow of flowers if the whole system weren't computer-based," said Adrienne Lansbergen, the Aalsmeer auction's spokeswoman. "The num-

bers have grown too big to do anything else."

Such efficiency cuts costs, helping the Dutch maintain a comfortable lead over rivals in Colombia, Israel, Spain and Kenya, where growers are blessed with better weather and lower costs.

It also means the freshly-cut

'We'd have no hope of keeping track of the flowers if the system weren't computer-based.'

— Auction spokeswoman

flowers can be sold in New York, Tokyo or Sydney later that same day or early the next morning.

And the staggering size of the turnover means individual growers can afford to specialize in certain flowers, unlike horticulturists in other countries who need to produce a number of different flowers to ensure an adequate income.

"Some of our growers produce only lilies or only irises in all their varieties," Mrs. Lansbergen said. "Buyers know they can always get the kind of flower they need in just about any quantity or color."

The Aalsmeer auction hall complex, which covers an area

the size of 55 soccer fields, includes a special liaison department for especially large orders. "If a supermarket chain wants a few thousand ferns all of the same size, we can put them in touch with the right growers," she said.

Housed in a large area below the auction floor, the computer room begins its work when the flowers arrive before dawn for the early morning auctions: the consignments are given a computer code that remains with them as they move from arrival hall to auction hall and finally to shipping areas.

During the auction itself, the computer registers up to 20 transactions per minute as flower-laden trolleys are pushed into the auction hall and through the complex by chains buried in the floor.

The Aalsmeer auction, run as a cooperative by 5,000 local growers, has expanded periodically since it was opened in 1972. Management is now working on improving the flow of flowers through the complex and strengthening the computer system to cope with the steady rise in the Dutch crop.

The Dutch produce seven billion cut flowers and half a billion house plants each year, accounting for 63 percent of world flower exports and 51 percent of its competitors have more than an 18 percent share of either market.

In 1986, the Dutch exports were worth 4.8 billion guilders

See FLOWERS, Page 21

Japanese Firms Are Warned on Currency Trade

By Susan Chira

TOKYO — In an effort to halt the yen's rise, Japanese government officials summoned major Japanese participants in the foreign exchange market on Wednesday and asked them to refrain from speculative currency trading.

The request, which Finance Ministry officials called "moral persuasion," sent the dollar up slightly and stock prices down sharply in Tokyo. Officials said that the request was not part of a coordinated effort with other countries.

Finance Ministry officials said the dollar was little changed before the release of U.S. trade figures. Page 21.

The companies concerned did not have to heed their advice, but one foreign banker said the ministry was following up its request with a requirement that banks report their trading positions to the ministry, which would allow officials to detect speculative trading.

In Japan, such "administrative guidance" has proved a powerful tool. Although compliance is voluntary, most companies do not want to alienate their regulators.

But it is not clear whether such persuasion will work in this case. The ministry has no say over other currency markets, and if the dollar falls in New York, for example, it is likely to keep falling in Tokyo.

Moreover, bankers in Tokyo say, there is nothing to prevent Japanese companies from placing speculative orders through overseas branches or dealers.

The request to avoid speculative dollar-selling came from two sources: the Finance Ministry, directed at major Japanese and foreign commercial banks, life insurance companies and securities firms; and the Ministry of International Trade and Industry, directed at trading, electronics, automobile and oil companies, all of which have been active in the currency market, placing orders through

the companies concerned did not have to heed their advice, but one foreign banker said the ministry was following up its request with a requirement that banks report their trading positions to the ministry, which would allow officials to detect speculative trading.

Because many Japanese companies are major investors in foreign bonds, they have been trying to hedge against currency losses in recent days. Mr. Utsumi said that while he was not telling companies to completely stop hedging risks — which might discourage companies from buying more foreign bonds — he was asking them to consider moderating such moves.

"Hedging is a very legitimate way of avoiding risk, but to rush to hedge is like tightening a noose around their own necks, because the dollar would then depreciate further," he said.

He said the ministry had no intention of tightening market regulations, but suggested that a clear warning had been delivered to participants.

A foreign banker said bankers at the meeting were told that they would be required to submit regular reports of their maximum daily currency positions.

"They're really bearing down," he said. "If you want to do a little speculation, you can go like crazy all day long and then close your position out by the time the day ends. But if you have to give your maximum position, they'll catch you."

Japan's merchandise trade surplus shrank slightly in April, although its surplus with the United States reached a record in dollar terms, the Finance Ministry announced Wednesday.

In a preliminary report that bodes ill for the release Thursday of U.S. trade figures, the ministry said Japan's surplus with the United States grew to a record \$5.15 billion in April, from \$3.78 billion in March and \$4.74 billion a year earlier. Japan's previous monthly record surplus with the United States was \$4.98 billion in October.

Currency changes have caused a sharp increase in the dollar value of Japanese exports to the United States, although Japan says the volume of its exports is gradually declining.

The record surplus came as the U.S. Congress is considering measures against countries that run large surpluses in trade with the United States. In addition, the U.S. government has imposed 100 percent tariffs on \$300 million worth

of Japanese electronic products in retaliation for Japan's alleged failure to abide by a semiconductor trade agreement.

Economists said the report was likely to increase protectionist sentiment in the United States.

On a worldwide basis, Japan's trade surplus contracted last month to \$7.57 billion from \$8.09 billion in March, but was still much wider than the \$6.85 billion a year earlier.

Total exports in April rose nearly 10 percent from a year earlier, to \$19.5 billion, just below the record \$19.66 billion in December. Imports increased 9.4 percent from a year earlier, to \$11.93 billion.

The surplus with the United States grew despite determined efforts to reduce it, including the 45 percent decline in the dollar against the yen in the past two years. It was hoped that the weaker dollar would reduce the U.S. deficit by making U.S. goods more competitive on world markets and pushing up the price of its imports, including those from Japan.

(Reuters, AP)

Interest Rates

Table with columns for currency, rate, and date. Includes entries for US, UK, and other currencies.

Source: Reuters, Bank of Tokyo, Citicorp, etc.

Key Money Rates

Table with columns for instrument, rate, and date. Includes entries for US, UK, and other money rates.

Source: Reuters, Bank of Tokyo, Citicorp, etc.

U.S. Money Market Funds

Table with columns for fund name, rate, and date.

Source: Reuters, Bank of Tokyo, Citicorp, etc.

Gold

Table with columns for location, price, and date.

Source: Reuters, Bank of Tokyo, Citicorp, etc.

OECD Farm Statement Falls Short of U.S. Goals

By Axel Krause

PARIS — Ministers of the Organization for Economic Cooperation and Development formally adopted a broad agreement Wednesday to begin cutting back on government farm programs, but the statement fell short of U.S. proposals in several key areas, according to delegates.

The United States had urged ministers attending OECD's annual meeting here to agree to phase out guaranteed farm prices, avoid unlimited production, and get an "early start" on farm trade-liberalization talks in Geneva.

However, these proposals and several others were dropped, or the language diluted, in the communiqué issued at the close of the two-day meeting.

U.S. officials, nevertheless, expressed satisfaction with the outcome of the meeting, noting that they had won victories in two important areas, including the first international agreement to "decouple" farm supports from price supports.

"That means the OECD agreed to support farmers, not farms," said a senior U.S. negotiator.

"Everyone makes tradeoffs in

these kinds of meetings," he added. Observers said the United States had made progress on its general goals, even if specific language and proposals were defeated.

The 10-page document was notable for what it didn't contain, however. For example, it made no mention of a new OECD computerized framework for use in negotiating a wide range of farm-support measures in the trade talks being organized by the General Agreement on Tariffs and Trade. The framework would have represented the first comprehensive measure of the degree to which farmers are supported by government programs.

The main opposition to this provision came from Japanese officials, who, delegates said, feared triggering opposition from powerful farm groups at home.

Instead, ministers softened the language to authorize the OECD secretariat to "further its work by updating and improving the analytical tools it has begun to develop."

U.S.-supported proposals on farm prices also were dropped, notably a suggestion that "excessive, guaranteed prices" be phased out gradually within OECD countries.

The deletion was regarded as a victory for West Germany. "We can accept a policy on prices, but not commitments that would lead to actual (farm) price reductions in nominal terms," Otto Schlecht, state secretary of the Economics Ministry, said Wednesday.

The communiqué also dropped another U.S.-backed proposal, urging the seven leaders meeting in Venice next month to "further broaden" farm reform talks.

"The Americans did not really back down on their demands, but let's say they toned down their approach to farm and trade issues, which dominated our discussions," a senior OECD secretariat official said.

Agreement on the wording in the communiqué followed tense debate, primarily stemming from resistance expressed by West Germany, fearful of hostile reaction by its farm lobbying groups.

"We had trouble convincing the Germans to accept the decoupling proposal," said a delegate of the European Community's executive commission, representing the 12 EC states.

"But Germany agreed, partly because the United States eased away from pressing too hard on reducing farm prices — a highly domestically sensitive issue for the Germans," the commission official said.

Despite the tradeoffs in the agreement, West German Economics Minister Martin Bangemann, chairman, said the meeting had been a "good success," because it committed OECD members to starting cutbacks in government programs that subsidize and protect farm trade.



Martin Bangemann

Channel Tunnel Secures Loan Of £1 Billion From EC Bank

LONDON — Eurotunnel, the consortium that plans to dig a railroad tunnel between Britain and France, said Wednesday that it had secured a loan of £1 billion (\$1.7 billion) from the European Investment Bank.

The bank is the development fund of the European Community. The co-chairman of the consortium, André Bernard of France and Alastair Morton of Britain, said the loan was part of an overall bank financing package of £5 billion that is being sought by Eurotunnel.

"The EIB has a superb capability for independent technical assessment and has decided that the tunnel is a viable project, which will be of great benefit to Europe," they said.

The European Investment Bank, based in Luxembourg, said the Eurotunnel project would stimulate Europe's economy. It said that

the loan was backed by a syndicate including British and French banks and that no government funds or guarantees were involved.

British Rail and Société Nationale des Chemins de Fer de France settled on Tuesday a financial agreement with the Eurotunnel consortium and agreed on the price they would pay to use the tunnel under the English Channel. The figures were not released.

Mr. Morton said the agreement meant the consortium could go ahead with plans to raise funds from international banks, which he said should be completed by July.

The planned public share offering to raise £750 million, which was postponed from July, is expected to take place in November.

Preliminary work has started on the French end of the tunnel near Calais. The project is expected to be finished in 1993.

Advertisement for CORUM watches, featuring a large image of a watch and text: 'HARRY WINSTON Very special exhibition of the rare jewels of the world Oriental Hotel Singapore May, 15th, 16th and 17th 1987'.

Wednesdays NYSE Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect trades elsewhere.

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U.S. Futures Via The Associated Press

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London Court Dismisses Request on ITC Receiver

LONDON — A British court dismissed Wednesday a request to appoint a receiver to recover debts from the 22 member states of the insolvent International Tin Council.

Spain, Portugal to Seek Membership in EMS

STRASBOURG, France — Spain and Portugal, which joined the European Community in 1986, are eager to join the European Monetary System, their central bank governors said Wednesday.

Company Results

Table with columns: Company Name, Revenue, Profit, etc. Lists financial results for various companies.

NYSE High-Lows

Table with columns: High, Low, Open, High, Low, Close, Chg. Lists various stock prices and market data.

Paris Commodities

Table with columns: High, Low, Open, High, Low, Close, Chg. Lists various commodity prices.

London Commodities

Table with columns: High, Low, Open, High, Low, Close, Chg. Lists various commodity prices.

Asian Commodities

Table with columns: High, Low, Open, High, Low, Close, Chg. Lists various commodity prices.

London Metals

Table with columns: High, Low, Open, High, Low, Close, Chg. Lists various metal prices.

Dividends

Table with columns: Company Name, Dividend Amount, etc. Lists dividend information for various companies.

U.S. Treasuries

Table with columns: Maturity, Yield, etc. Lists U.S. Treasury bond data.

Stock Indexes

Table with columns: Index Name, Value, Change, etc. Lists various stock index data.

Market Guide

Table with columns: Market Name, Location, etc. Lists market information for various locations.

Large advertisement for S&P 100 Index Options, including details on contracts, commissions, and contact information.

BUSINESS ROUNDUP

Boeing: A 'White Knight' for United

By Agis Salpukas
NEW YORK — United Airlines' \$2.1 billion purchase of Boeing Co. airplanes is aimed at protecting the carrier and its parent, Allegis Corp., from hostile takeover, analysts said.

MD-11s Ordered By Dragonair

LONG BEACH, California — Dragonair, based in Hong Kong, has ordered two McDonnell Douglas three-engine MD-11s and taken an option on a third, the U.S. manufacturer has announced.

Co. and Hertz Corp., a rental car company. Robert J. Foy, chairman and chief executive of Allegis, said at a recent news conference that the move by the pilots had made Allegis more vulnerable to a takeover.

Such a combination is prohibited by U.S. laws going back to the Air Mail Act of 1934. That law curbed connections between airlines and manufacturers that supplied them with planes, engines and parts.

He said there was little chance Boeing would seek to take over Allegis. Several analysts noted that it was unusual for an airplane maker to be given such a large stake in an airline.

United got off to a shaky start in the Pacific and faces tough competition from other airlines that have ordered new aircraft.

SAS Postpones Decision on Jets Until September

STOCKHOLM — Scandinavian Airlines System said Wednesday that it had postponed until September a decision on a major order of new jets as talks continue on a possible collaboration with Sabena Belgian World Airlines.

The spokesman said that the final selection would depend on "joint fleet planning" with Sabena, which also uses DC-10s for its long-range routes.

BUSINESS PEOPLE

Marketing Executive Leaves Wendy's

By Arthur Higbee
The executive vice president for marketing has resigned at Wendy's International Inc., a fast-food chain based in Dublin, Ohio.

Mr. Welter joined Wendy's in 1981 as vice president for marketing. He headed the team that developed the popular "Where's the Beef?" series of television commercials in 1983.

and deputy permanent representative to the UN office in Geneva. Bankers Trust New York Corp. said David Beim, its managing director for investment banking, had resigned.

Mr. Bibee, 50, had been vice president for contracts and pricing when he left Douglas in 1980 to become vice president of finance and procurement at Cammacorp, which oversaw the engine modification of more than 110 McDonnell Douglas DC-8 jets.

Fraser's Ex-Chief Will Head BAE

LONDON — Roland Smith, former chairman of House of Fraser PLC, the department store chain, is to be the next chairman of British Aerospace, Britain's biggest aircraft manufacturer, the company has announced.

Mr. Smith, 58, now a professor of marketing at Manchester University, will succeed Sir Austin Pearce, 65, who is retiring. BAE said Tuesday.

Matsushita Develops Chips

OSAKA, Japan — Matsushita Electronics Corp. said Wednesday that it had developed the world's first 8-megabit and 16-megabit mask read-only memory chips, capable of storing 14,000 and 28,000 Japanese or Chinese characters, respectively.

INTERNATIONAL POSITIONS

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Bayer Profit Up 3.2% Despite Sales Decline

LEVERKUSEN, West Germany — Bayer AG reported Wednesday that group pre-tax profit in the first quarter rose 3.2 percent, to 715 million Deutsche marks (about \$400 million at current rates) from 693 million DM in the first quarter of 1986.

capital by a nominal 600 million DM. Although Bayer does not require the funds now, he said, the authorization would allow the company to react immediately to financial needs and changing capital market conditions in the next five years.

the fall of 1988 will probably require a nominal 30 million DM, he said. Mr. Strenger said that in value terms, first-quarter 1987 sales in Western Europe were barely changed against the same period last year.

23% of Chinese Firms Had Losses in Quarter

BEIJING — Twenty-three percent of China's state-owned industrial concerns were unprofitable in the first quarter of 1987, the China Daily said Wednesday.

It said the combined losses were \$410 million, 42 percent over the year-earlier period. The paper said the number of state enterprises reporting losses rose by 933 to reach 3,918 over the previous year.

Mr. Strenger said accounting procedures for first-quarter figures were altered to comply with new accounting legislation and 1986 figures had been adjusted to make comparisons. He did not detail the effect of the changes on profit and sales figures.

US International Tax Manager Frankfurt

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INTERNATIONAL OPPORTUNITY

POSITION: Vice President, Directory & Yellow Pages. LOCATION: Tokyo, Japan. QUALIFICATIONS: — At least 10 years of direct international marketing experience in Directory and Yellow Pages.

Dome Signs Amoco Merger

TORONTO — The debt-ridden Dome Petroleum Ltd. has signed a definitive merger agreement with the Canadian subsidiary of Amoco Corp. in a transaction valued at about \$1.1 billion Canadian dollars (\$3.86 billion).

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CURRENCY MARKETS

Dollar Stable Before U.S. Trade Data

LONDON — The dollar was little changed in Europe on Wednesday as investors awaited the release Thursday of U.S. trade figures before deciding whether to shift funds into or out of the currency.

London Dollar Rates

Table with columns for currency (Deutsch mark, French franc, Japanese yen, Swiss franc) and rates (West, East).

that we don't," said a London dealer of Japan's request. The dollar closed in London at 1.7890 Deutsche marks, unchanged from Tuesday's close, and at 139.75 yen, up slightly from 139.55.

spark dollar buying and send it back up. Hopes, subsequently disappointed, that West Germany's Bundesbank might follow Tuesday's interest rate cuts with the more dramatic use of a discount rate cut briefly buoyed the dollar in the morning.

U.K. Auctions Its First Bonds

LONDON — The Bank of England, using a U.S. Treasury technique, held its first auction of British government bonds Wednesday in an effort to speed sales and limit the impact of market volatility.

U.K. Encourages Platinum Trade

LONDON — Platinum and palladium trading in Britain should be more accessible to investors after a decision by tax authorities to give the market zero-rating for value added tax starting June 1, dealers said Wednesday.

FLOWERS: Dutch Use Computers to Maintain Exports

(Continued from first finance page) (\$2.4 billion at current exchange rates), up from 4.56 billion guilders in 1965.

creased in Europe, especially in West Germany, which accounts for 50 percent of Dutch flower exports.

auction pits — one for roses, three for other cut flowers and one for house plants.

Wednesday's OTC Prices. NASDAQ prices as of 3 p.m. New York time. Via The Associated Press.

Table A: OTC prices for various stocks including AOC, ADI, AET, etc.

Table B: OTC prices for various stocks including AET, AET, AET, etc.

Table C: OTC prices for various stocks including AET, AET, AET, etc.

Table D: OTC prices for various stocks including AET, AET, AET, etc.

Table E: OTC prices for various stocks including AET, AET, AET, etc.

Table F: OTC prices for various stocks including AET, AET, AET, etc.

Table G: OTC prices for various stocks including AET, AET, AET, etc.

Table H: OTC prices for various stocks including AET, AET, AET, etc.

Table I: OTC prices for various stocks including AET, AET, AET, etc.

Table J: OTC prices for various stocks including AET, AET, AET, etc.

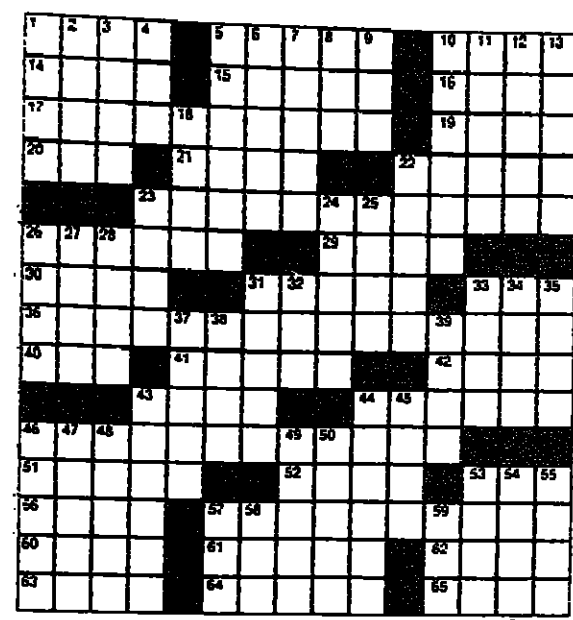
Table K: OTC prices for various stocks including AET, AET, AET, etc.

Table L: OTC prices for various stocks including AET, AET, AET, etc.

Wednesday's AMEX Closing. Tables include the nationwide prices to the closing on Wall Street and do not reflect late trades elsewhere.

AMEX High-Lows. NEW HIGHS 22, NEW LOWS 15.

WORLD STOCKS REVIEW. A summary of international market trends.



ACROSS

1 Place
2 Tonsure site
14 Camembert
15 Silly
16 Andy's buddy
17 Company for rabid canines
19 Liquidates, in a way
20 Tokyo
21 Comedian
22 Portage
23 Place for 17

DOWN

29 "Celeste"
30 Middle
31 Less
33 Catered
36 What poor Uncle Harry wanders
40 "longa"
41 Past or imperfect
42 Ely's river
43 Statesman
44 Douglas-Home
46 Gertrude Lawrence hit

51 Germanic inscriptions
52 Part of F.D.R.
53 Gowdies, e.g.
56 Redolence
57 Co-star of 46
58 Across and star of this puzzle
60 Outlet
61 Sired
62 King of the Huns
63 Contents of lodes
64 Manpower, aloft
65 Subject for a best seller

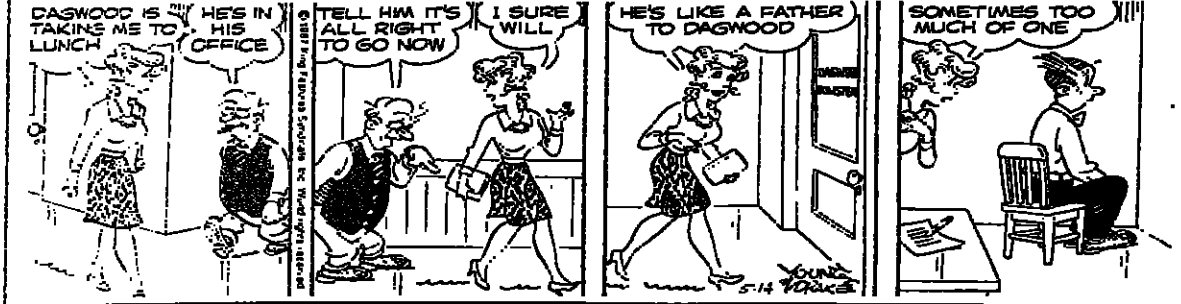
1 Comply
2 "Judith" composer
3 Manifestation
4 — qu (such as it is, in
5 Fine knits
6 "To think that's far awa"; Burns
7 College
8 French article
9 F.R. 1853-61
10 Tropical fruit
11 "The way to heart..."
12 "Happy birthday —"
13 Steel city

18 "— shall gain the whole world"
22 The City of Victory
23 Banyan or baobab
24 "Macabre"
25 Vier predecessor
26 Minutes
27 Portal
28 Spheres
31 Because
32 Burro
33 Mythical man-beast
34 Padraig's tongue
35 Gave hue
37 Mercator work
38 Proper
39 Negative
43 Turns away
44 Turns out
45 Turned down
46 Utah city
47 Less refined
48 Collier's hold-
49 Sovereign
50 A type of mother
53 Jacques de film
54 A Gardner
55 Callery entrance
57 A TV network
58 Across, in poetry
59 Bankroll

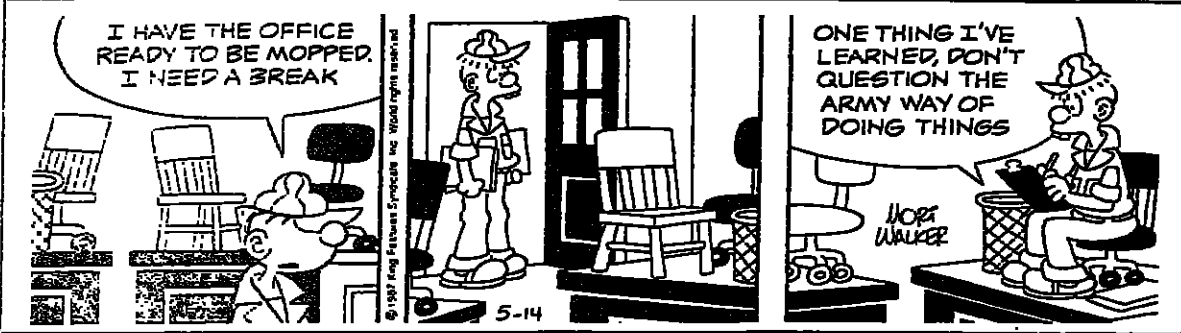
PEANUTS



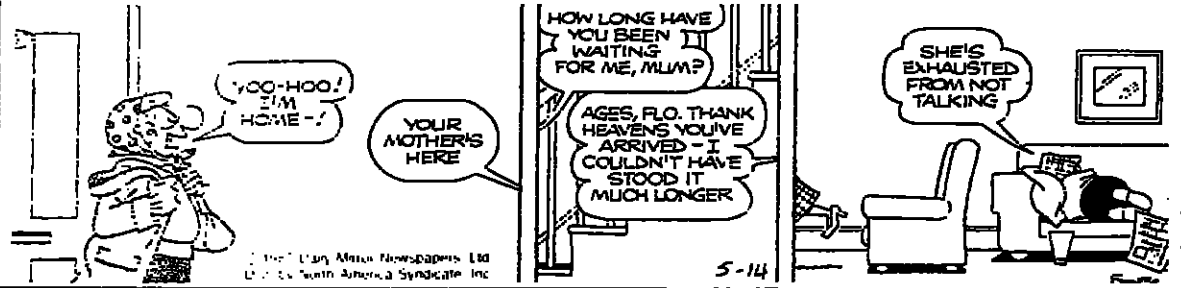
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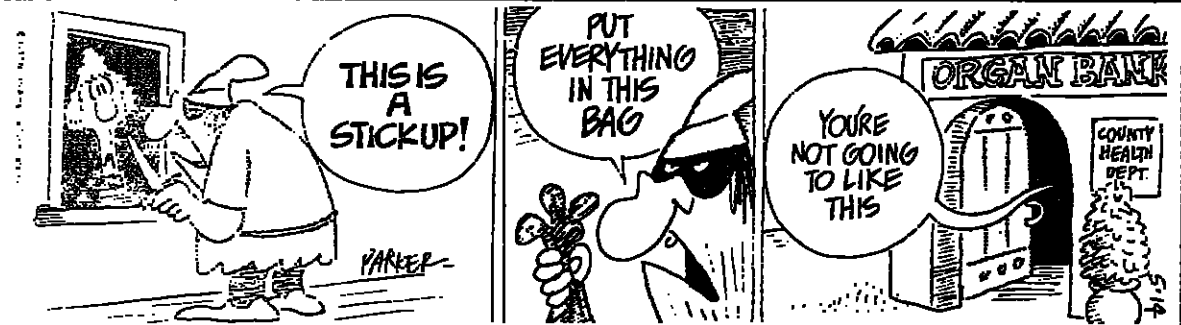
BEEBLE BAILEY



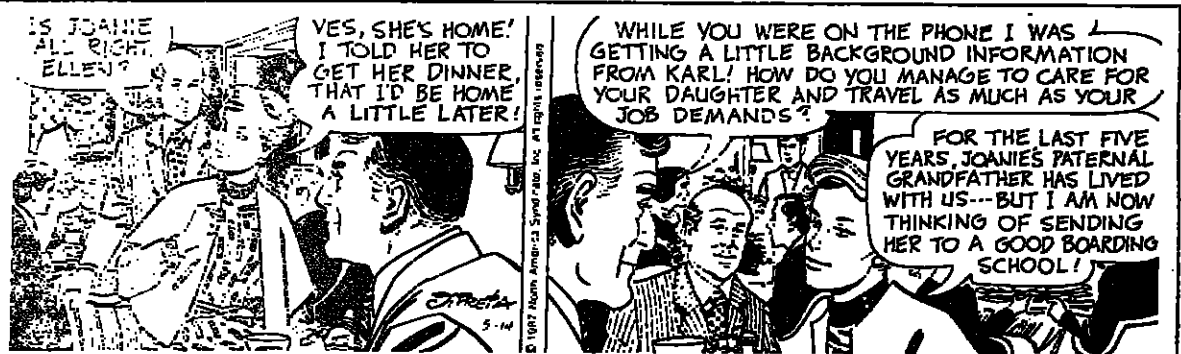
ANDY CAPP



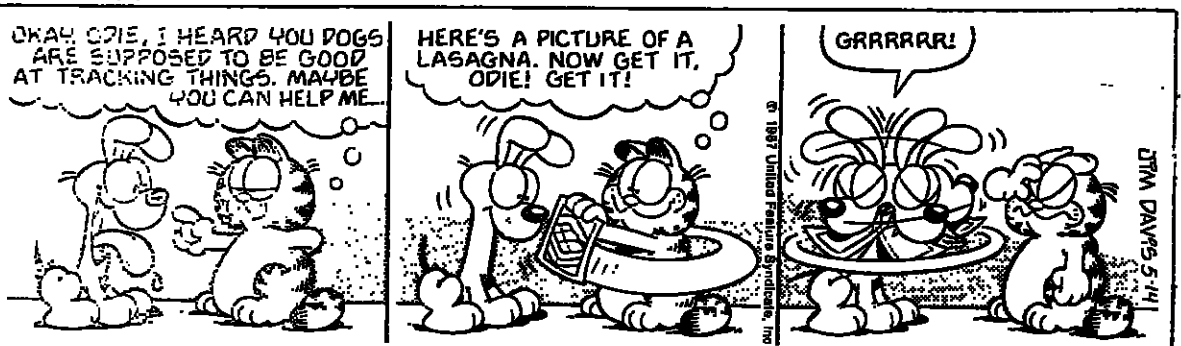
WIZARD OF ID



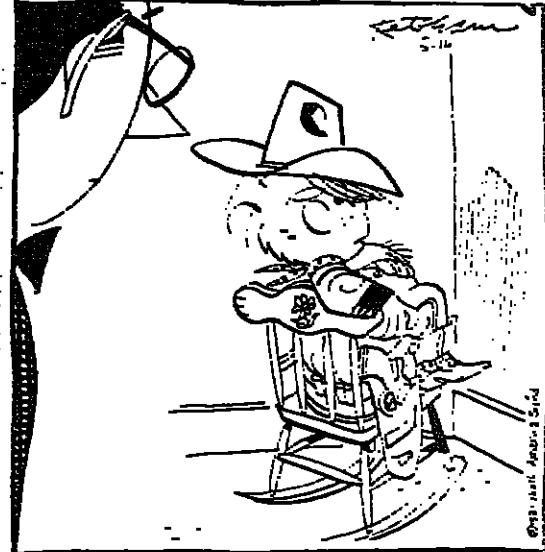
REN MORGAN



GARFIELD



DENNIS THE MENACE



JUMBLE

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

His swindled half the town

WHAT THE EMBEZZLER WAS DOING TIME FOR.

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer: "MANGY SILKY ATTAIN DEFACE"

Yesterday's Answer: If he's an American and is presented with a difficult problem, he ends up with these words—"I CAN!"

WEATHER

EUROPE	HIGH	LOW	ASIA	HIGH	LOW
Algeria	10	5	Beijing	12	5
Amsterdam	10	5	Bangkok	27	16
Antwerp	10	5	Bombay	32	22
Berlin	10	5	Buenos Aires	21	14
Brussels	10	5	Calcutta	32	22
Cardiff	10	5	Chongqing	28	18
Copenhagen	10	5	Colombo	32	22
Dublin	10	5	Dhaka	32	22
Edinburgh	10	5	Hankow	28	18
Frankfurt	10	5	Hong Kong	28	18
Geneva	10	5	Kobe	28	18
Helsinki	10	5	London	10	5
Lisbon	10	5	Manila	32	22
London	10	5	Osaka	28	18
Moscow	10	5	Seoul	28	18
Paris	10	5	Singapore	32	22
Rome	10	5	Taipei	32	22
Sydney	10	5	Tokyo	28	18
Zurich	10	5			

BOOKS

STORMING THE MAGIC KINGDOM: Wall Street, the Raiders, and the Battle for Disney
By John Taylor. Illustrated. 261 pages. \$18.95. Alfred A. Knopf, 201 East 50th Street, New York, N. Y. 10022.

Reviewed by Christopher Lehmann-Haupt

WHAT do Mickey Mouse, Ivan F. Boesky, and Snow White, Sid Bass, Disneyland and the law firm of Skadden, Arps, Slate, Meagher and Flom have in common? All play key roles in John Taylor's "Storming the Magic Kingdom," a complex story of high financial intrigue made as pungent as a fairy tale in its author's able hands.

Mickey Mouse and Snow White, of course, are two of the cartoon characters that helped make the growth of Walt Disney Productions into what the author calls "one of the most successful marketing stories of the 20th century." But almost as significant in the long run, they are two of the products that Walt Disney reserved the right to license privately, a maneuver that antagonized his brother, Roy O. Disney, and ultimately split the company into factions known as the Walt and the Roys.

Disneyland, along with Walt Disney World and EPCOT, is part of the real estate empire that had come increasingly to preoccupy Walt Disney at the time of his death in 1966 and further weakened the company by distracting him from the movie side of the business, which was rapidly falling out of step with the times.

Boesky, of course, was an arbitrator — or arb, as such speculators are known on Wall Street — until his recent guilty plea in an insider-trading case. He invested hugely in Disney stock when he learned (legally, in this case) that a financier, Saul P. Steinberg, was exploiting Disney's weakness by attempting a hostile takeover. The law firm of Skadden, Arps arranged the buyback, or "greenmail," whereby Disney eventually ended off Steinberg's raid by paying him a premium for the stock he had accumulated. When the Disney

company finally got straightened out, Sid Bass and his brothers, who had also bought heavily into the stock, ended up with a capital gain of \$850 million.

Actually, the story told in "Storming the Magic Kingdom" is far more complicated, with what the author calls "a variety of strategies used to fight off hostile acquisition. But Taylor, a senior writer for Manhattan Inc. magazine, does a skilled yarn spinner's job of keeping all the threads untangled.

True, he has gone for him a story as archetypal as "The Three Little Pigs." On one side are the wily, cunning creatures who occupied what Taylor calls "the tiny, incestuous world of takeover mercenaries; men, by and large, at a handful of investment banks, law firms, and public relations agencies, who were sometimes professional adversaries and at other times professional allies, depending on who retained them in any given battle."

On the other side were the keepers of the magic kingdom, who, at least in their view, were nothing less than "a force shaping the imaginative life of children around the world."

Indeed, so naturally does Taylor's narrative unfold that it isn't until near the end that a reader pauses to ask what the deeper point of it all might be. Almost immediately, the author supplies some possible answers. One of the most salient is that despite Wall Street's recent insider-trading scandal, most of the information that gets passed around to the profit of interested parties is perfectly legal. As Taylor notes: "The banks for Disney unfolded in the manner it did, and assumed the outcome it finally did, because the arbs, brokers, bankers, and lawyers all knew one another. If they didn't all share the same values, they did speak the same language and employ the same frame of reference. They were all insiders."

For critics of corporate raiders, Taylor suggests, the Disney story illustrates the vast amounts of time and money corporations are forced to waste defending themselves in useless takeover battles. In contrast, defenders of the raiders "have cited Steinberg's takeover attempt on Disney as an outstanding example of the useful role raiders play in identifying underperforming companies and forcing changes which improve their performance."

Some readers will insist that the dubiousness of this latter argument is self-evident from Disney's valuing game from producing "Snow White" and "Pinocchio" to putting out such recent films as "Down and Out in Beverly Hills" and "Rustless People." Others, not so enamored with the classic Disney vision, will respond that the change is just as well.

Taylor himself draws no final conclusions on this score. Nor does he really need to. He has dug up and told a story that typifies what is happening in American business today. He has wrung high drama from the financial news, and in so doing has shown us a world we rarely get to see.

Christopher Lehmann-Haupt is on the staff of The New York Times.

Solution to Previous Puzzle

MEDIC MAIL HAMS
TRISH ALDA ULAM
COMMONROOM MAINE
ESE RANT ERMINE
TIME ANTI
MALONE ANTENNAE
ALIVE MINE GUMM
SLAM MIMED BRIM
TONY ILEX VISTA
SWADDLED CAREYS
ODDS LAUD
BARREN GOALERA
UFOS EMENTALER
MAME SEAS EMMET
PREY SANS DIODE

BRIDGE

By Alan Truscott

RED FACES among defenders are often the result of failing to defeat a contract that was easily beatable by cashing winners. Such plays are childishly easy when looking at a full diagram but can need careful thought at the table.

Sitting West, Pagan had no way to know that an opening lead of the diamond ace would decide the issue. He made a normal heart lead, and East's queen was captured with the ace.

South thought matters over and led the spade queen. East won with the king, and the moment of truth had arrived. As many would, he routinely led a "safe" heart, and South made the slam when the spade break proved favorable.

How should East have known that a diamond shift was essential? East had to assume that his partner had a high honor somewhere. If he did not, there was no hope for the defense.

If West held the club ace, he was sure to make it. It was most unlikely that West held the heart king; it would mean that South had selected six no-trump with only one stopper in

the unbid heart suit. It was clear that South held strong spades that he was developing. The most likely card for West to have was the diamond ace, and West should therefore have led that suit. But it was not easy.

NORTH (D)

♠ A K Q J 10 9 8 7 6 5 4 3 2
♥ A K Q J 10 9 8 7 6 5 4 3 2
♦ A K Q J 10 9 8 7 6 5 4 3 2
♣ A K Q J 10 9 8 7 6 5 4 3 2

EAST

♠ A K Q J 10 9 8 7 6 5 4 3 2
♥ A K Q J 10 9 8 7 6 5 4 3 2
♦ A K Q J 10 9 8 7 6 5 4 3 2
♣ A K Q J 10 9 8 7 6 5 4 3 2

Neither side was vulnerable. The bidding:

North: 1♣ Pass 2♣ Pass 3♣ Pass 4NT Pass 5NT Pass

West: 1♣ Pass 2♣ Pass 3♣ Pass 4NT Pass 5NT Pass

West led the heart suit.

World Stock Markets

Market	Index	Change
Amsterdam	1000	+15
Bombay	1000	+15
Buenos Aires	1000	+15
Calcutta	1000	+15
Chongqing	1000	+15
Colombo	1000	+15
Dhaka	1000	+15
Hankow	1000	+15
Hong Kong	1000	+15
Kobe	1000	+15
London	1000	+15
Manila	1000	+15
Osaka	1000	+15
Seoul	1000	+15
Singapore	1000	+15
Taipei	1000	+15
Tokyo	1000	+15

Market	Index	Change
Amsterdam	1000	+15
Bombay	1000	+15
Buenos Aires	1000	+15
Calcutta	1000	+15
Chongqing	1000	+15
Colombo	1000	+15
Dhaka	1000	+15
Hankow	1000	+15
Hong Kong	1000	+15
Kobe	1000	+15
London	1000	+15
Manila	1000	+15
Osaka	1000	+15
Seoul	1000	+15
Singapore	1000	+15
Taipei	1000	+15
Tokyo	1000	+15

SPORTS

Pirates Are Cashing In on Steadier Bonds

Compiled by Our Staff From Dispatches PITTSBURGH — Barry Bonds, a 22-year-old centerfielder and the son of a former major league star, has been highly touted since join-

BASEBALL ROUNDUP

ing Pittsburgh early last season. Until the last 10 games, however, he had shown only flashes of brilliance.

But these days Bonds is Pittsburgh's brightest star. He has raised his average 63 points in two weeks, going from .212 to .275, and his three-run home run helped the Pirates rout San Diego, 12-5, here Tuesday night.

As a rookie last year, Bonds heard the comparisons to his father, Bobby, to Eric Davis, to Darryl Strawberry. The trouble, he said, was that he listened — and wound up batting .223 and striking out 102 times.

Now he's showing signs that he can deliver on what Manager Jim Leyland calls "the kind of talent you don't see every day."

Bonds recently began extra batting drills designed to make him more patient and to keep him from chasing bad pitches. On Tuesday he had three hits and scored four runs.

Winning pitcher Rick Renschel apparently struck out to end the second inning, but pitched first when catcher Benito Santiago was unable to hold the 3-2 pitch from Andy Hawkins. Bonds followed with a home run to straightaway center that gave the Pirates a 4-2 lead.

Cardinals 6, Giants 5: In San Francisco, Willie McGee's two-run home run helped rookie left-hander Joe Magrane win his third straight decision as St. Louis edged ahead of Chicago and into first place in the National League East.

Dodgers 7, Cubs 0: In Los Angeles, Rick Honeycutt pitched his first shutout since he beat Houston, 1-0, on April 17, 1984.

Astros 5, Phillies 2: In Houston, Jose Cruz doubled home two runs to highlight a four-run first that helped the Astros end a three-game losing streak.

Brewers 5, Expos 2: In Montreal, pitcher Zane Smith hit a three-run double and registered his fourth straight victory.

Mets 6, Reds 2: In Cincinnati, rookie David Cone threw a four-hitter for his first major-league victory as New York snapped a four-game losing streak. Cone's complete game was the fourth of the year for a staff that notched 27 last season.

Orioles 10, Twins 7: In the American League, in Baltimore, Fred Lynn hit a bases-loaded home run in the eighth to forge a 7-7 tie and Larry Sheets ended the game in the ninth with a pinch-hit, three-run shot. In a 14-year career with Boston, California and the Orioles, Lynn is batting .328 with 33 homers and 111 RBIs in 129 games against Minnesota. "It really doesn't matter who they have over there," he said. "I've faced guys I've never seen be-

fore and get home runs and then never see them again."

Athletics 8, Brewers 8: In Milwaukee, rookie Terry Steinbach drove in four runs with a triple, double and a single to lead a 17-hit attack that sent the Brewers to their seventh straight loss.

Royals 3, Blue Jays 1: In Toronto, rookie Bill Pezota went 4-for-4, including a bases-empty homer, as Kansas City won for the seventh time in time games and moved

from fourth place to first in the Western Division.

Yankees 5, White Sox 4: In New York, Willie Randolph singled home Wayne Tolen from second with two out in the 13th to hand Chicago its sixth straight defeat.

Red Sox 3, Mariners 2: In Boston, relievers Joe Samito and Wes Gardner pitched out of seventh- and eight-inning jams, and left fielder Mike Greenwell threw the tying run out at the plate to end the

game as the Red Sox ended Seattle's four-game winning streak.

Rangers 6, Indians 1: In Cleveland, Larry Parrish hit a three-run homer and Pete O'Brien had two RBIs with a home run and a single as Texas spoiled Steve Carlton's first start for the Indians.

Tigers 15, Angels 2: In Detroit, Darnell Coles ended a 4-for-64 slump with a two-run homer and a two-run double to spark a rout of California. (AP, UPI)

Pitcher Gooden Passes a Minor Test

By Thomas Boswell Washington Post Service NORFOLK, Virginia — Dwight Gooden couldn't sleep much Monday night, thinking about Tuesday night's game against the Richmond Braves. The great New York Met right-hander, in his first game since undergoing 28 days of cocaine rehabilitation, wasn't worried about facing Trench Davis, Benn Stringfellow or any of their International League mates.

It was the crowd he couldn't get off his mind. "I was hoping I wouldn't get booed," said the 22-year-old. "I didn't know how they would react to me. I knew it would be a home crowd, but you never know until you go out there. I haven't heard cheers in a long time. They felt good."

The sellout Tidewater Met crowd of 6,128 cheered when Gooden walked onto the field half an hour before game time. It gave him a standing ovation as he took the mound. And it roared for all 37 of his pitches (24 for strikes) as he worked three sharp innings, permitting only one misjudged flyball hit and two walks.

The 1985 National League Cy Young Award winner was not the streakiest master who earned the nickname Dr. K in Shea Stadium. He threw only six curveballs and never got a change-up over the plate. Only one Brave struck out and few of the dozen hitters looked overpowered, even in twilight conditions. But the radar gun clocked his fastball at 95 mph (153 kph) twice in the second inning. By the third, he'd fallen into the 80s, although his last pitch of the night was 93.

As a tune-up for a valuable and much needed pitcher, Tuesday's game was hardly conclusive. Gooden's fastball was dead straight, a problem during his 17-6 season last year. But the curveball that struck out Al Pardo was such a wicked downward-in-drop that the left-handed hitter looked like he was trying to put out a flaming rug with a bat.

Said Dave Pavlick, the Mets' minor-league pitching coach who is overseeing Gooden's return: "He looked about average for Dwight at this time of year" — by which he meant early spring training.

It was Gooden's first positive experience in some time. He lost twice in the 1986 World Series and missed the victory parade the day after the Mets became world champions. In the offseason he was arrested and beaten during a confrontation with hometown police in Tampa, Florida. He ended up pleading "no contest" to resisting arrest.

But Tuesday evening, warm and cloudless, was as simple and pristine as a scene from "The Natural." Tidewater's first sellout crowd since opening day even employed Manager Mike Cabbage to let Gooden bat after his prescribed three innings of work were finished. Gooden did — and struck out, grinning sheepishly. The only other time he smiled after he bounced an easy throw to first baseman Clint Hurdle.

For this Triple-A town, Gooden's appearance was a special occasion. More than 100 members of the national media used a press box with one phone. Fans bought every ticket within five hours after they went on sale Monday at 9:30 A.M. The first fan in line had been there since Sunday night.

"It's great being the media capital of the world for 40 minutes," said Tidewater's general manager, Dave Rosenfield. "Thank goodness Gary Hart didn't quit today or nobody would be here."

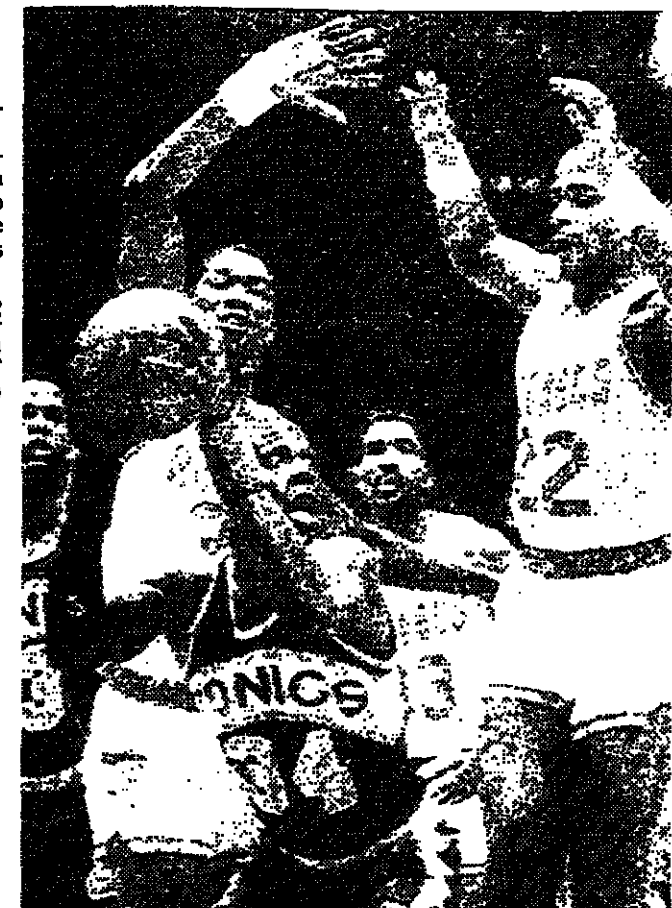
"Some of these guys on my team will never get to face Dwight Gooden again," said Richmond's manager, Roy Majtryk, meaning they'd never make the majors. "For some of them, it could be the highlight of their career."

Cabbage came to the ballpark early, got out a lineup card and carefully wrote Gooden's name in the No. 9 slot before he'd written any other name. "Damn, that looks good," he said.

... I haven't heard cheers in a long time."



Dwight Gooden ... I haven't heard cheers in a long time."



Corraling Xavier McDaniel, Alkeem Olajuwon (left) and Rodney McCray scored 26 and 24 points, respectively, to trigger Houston.

Lakers Advance in West; Rockets Win to Stay Alive

Compiled by Our Staff From Dispatches INGLEWOOD, California — Reaching the conference final signals a great season for most National Basketball Association teams. For the Los Angeles Lakers, it's routine.

The Lakers reached the Western Conference final for the sixth straight year Tuesday night after disposing of the Golden State Warriors, 118-106, capturing the best-of-seven series in five games.

Meanwhile, Houston downed Seattle to draw to within 3-2 in the other conference semifinal.

"There have been no surprises," said Guard Magic Johnson. "We are where we expected to be." Los Angeles got there with a balanced offensive attack — James Worthy had 23 points, Johnson added 19 points and 13 assists, A.C. Green had 20 points and Michael Cooper 17.

Guard Eric Floyd, who had 51 points in the Warriors' Game 4 victory, was held to 18 on 7-of-17 shooting as Cooper, honored before the game as the NBA's defensive player of the year, kept the clamps on. "We got one-upped in Oakland," Cooper said. "We decided to play cooler tonight. From now on,

we're going to just play basketball and be the silent assassins."

Rockets 112, SuperSonics 107: In Houston, Rodney McCray scored 24 points, had 11 assists and pulled down 10 rebounds to help the Rockets keep alive their hopes of a second straight conference title. The winners' Alkeem Olajuwon added 26 points.

Houston jumped in front in the first quarter and held a 59-38 lead with 5:25 left in the second quarter before Seattle shut off the Houston running game and pulled to within 66-56 at halftime.

"I thought we played well at the start, but Seattle wouldn't settle for that," said Bill Fitch, the Houston coach. "The McCray's individual effort was outstanding. The mistakes he made were from fatigue."

McCray played all but one minute of the 48-minute game. "There's only one month left in the season," said McCray. "I'll get plenty of rest later."

Seattle cut the deficit to 89-86 going into the fourth quarter and took its first lead, 97-96, on a 3-pointer by Tom Chambers with 7:11 in the game. But Olajuwon hit a basket with 4:15 left, and the Rockets never trailed again. (UPI, AP)



Ivan Lendl: Vis-à-vis Borg, a stereotyped game only marginally less interesting and an on-court countenance no more impressive.



Ivan Lendl: Vis-à-vis Borg, a stereotyped game only marginally less interesting and an on-court countenance no more impressive.

SCOREBOARD

Basketball

Table with columns for National Basketball Association Playoffs, Eastern Conference Semifinals, Western Conference Semifinals, and NBA Playoff Schedule.

Baseball

Table with columns for Tuesday's Major League Line Scores, American League, and National League.

NBA Playoff Schedule

Table listing Eastern Conference Semifinals and Western Conference Semifinals.

Transition

BASEBALL: Baltimore — Reassigned Mike Young, outfielder, and Jack O'Connor, pitcher, from Rochester to the International League.

Golf

PGA Leaders

Table listing PGA Leaders through May 10.

Major League Standings

Table with columns for American League East Division, West Division, National League East Division, and West Division.

Hockey

NHL Playoff Semifinals

Table with columns for Tuesday's Result, Wales Conference, and NHL Playoff Schedule.

Hockey

NHL Playoff Semifinals

Table with columns for Tuesday's Result, Wales Conference, and NHL Playoff Schedule.

Tennis Recovers From Its Post-Borg Malaise

By Richard Evans International Herald Tribune

ROME — There is something not quite right about the legacy Bjorn Borg left professional tennis when he retired so prematurely four years ago. The great Swede, who worked a near miracle by winning Wimbledon five successive years with a suspect volley, has left a void difficult to fathom.

Despite his Wimbledon triumph he was not, by the strictest standards, a great grass-court player. Nor in any sense could his personality be matched against that of impishly eccentric Ilie Nastase or that of John Newcombe, a racket-wielding forerunner of Crocodile Dundee. Although entirely personable, Borg was just a little boring — more to himself than to others. Playing as he did, grinding it out from the backcourt, he virtually bored himself into retirement.

stereotyped game is only marginally less interesting than Borg's, and his stony on-court countenance is no more impressive. Off the court, Lendl is far more expansive — a hearty joke teller who has thrown himself body and soul into the U.S. way of life in a manner that Borg, who sold his New York residence, found impossible. And yet...

moaning of the U.S. tennis equipment industry — did it really expect that the spiraling boom of the early '70s would continue unabated, or that graphite rackets would not replace as often as wooden ones? — more people are paying to watch the game than ever before.

Canadiens Avert Elimination

Compiled by Our Staff From Dispatches PHILADELPHIA — The Montreal Canadiens on Tuesday rediscovered the importance of the early lead.

After dropping two games to Philadelphia at home and going down by three games to one in the best-of-seven Wales Conference playoff finals, the defending National Hockey League champions took the lead 2:28 into the game and stayed in front to earn a 5-2 victory over the Flyers.

corner off a Philadelphia skate at 13:48. Scott McLaughlin momentarily excited the sellout crowd of 17,222 with a goal 48 seconds later to make it 4-2. Montreal's Claude Lemieux closed out the scoring on a breakaway with 34 seconds left in the game.

Montreal sealed its victory with two goals in a 19-second span of the second period. Defenseman Craig Ludwig scored on a 2-on-1 break with Robinson at 13:29, and Guy Carbonneau on a shot from the left wing

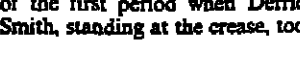
pass and poked it between goalie Brian Hayward's legs. Defenseman Larry Robinson put the Canadiens ahead, 7-1, on a power-play goal at 14:48.

Until this year, only two teams had recovered from 3-1 deficits in 70 years of Stanley Cup play; in 1987, Detroit and the New York Islanders did it in earlier rounds.

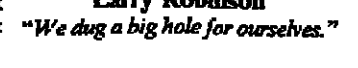
Robinson, who has six Stanley Cup rings, contributed three assists as well as his goal Tuesday night. But he refused to see himself as the key. "This isn't a one-man game. We pride ourselves that 20 men come to work every night," Robinson said.

"When you're down 3-1 there's not much to be said. We dug a big hole for ourselves. Now we're digging ourselves out."

"This doesn't call for any celebration," said Hayward, who stopped 24 shots. "We're still one game away from being eliminated." (AP, UPI)



Larry Robinson "We dug a big hole for ourselves."



Larry Robinson "We dug a big hole for ourselves."

ART BUCHWALD

Give for the Contras

WASHINGTON — According to the House and Senate committees investigating the Iran-contra affair, most of the money raised for the Contras came from private sources. This is how the fund-raisers operated.



Buchwald

"Would you care to make a contribution to the Low Channel Freedom Fighters Foundation?" "What do you do?" "We perform deeds of mercy in the hills of Nicaragua, while Congress ignores the Communist threat from Russia and Cuba."

Giacometti Sculpture Sold for \$3.63 Million

New York Times Service NEW YORK — Alberto Giacometti's "Large Female Standing II," a 107-inch (270-centimeter) tall bronze figure of a woman from 1960, was sold Tuesday night from Baron Lambert's collection at Christie's for \$3.63 million, the highest price ever paid at auction for a sculpture.

ed in this project, although he's not sure what he does. "Do I get to meet the vice president, too?" "You don't even have to ask. The vice president is more anxious to meet you than you are to meet him. Of course later he'll deny he saw you, but it will be a moment you'll never forget."

"If I contribute will I become part of what you're doing?" "You are a part of it now. Your check makes you a benefactor in this war or any other war in the hemisphere."

"Did I tell you that your contribution is tax deductible?" "Why is it tax deductible?" "We inform everyone the money is going for Kleenex and dog food. What we do after that is nobody's business."

Harry Mulisch's Assault on World War II

By Jonah Raskin

AMSTERDAM — Harry Mulisch lives and works in a comfortable apartment in the center of Amsterdam. At 60 he looks very much the successful author, rather than the 1960s personality who spoke for Amsterdam's nonconformist crowd in books like "Report to the Rat King," "In Memory of Ché Guevara," and "The Sexual Bulwark," a psychological study of Wilhelm Reich.



A Mulisch image: "A man walking backwards to push something forward."

More than any other contemporary Dutch writer Harry Mulisch has articulated the moods of several decades and several generations. He has had an unusual ability to tell his readers how and what they are feeling before they themselves seem to know. And more than any other Dutch author Mulisch has an international reputation. In the United States he is best known for his 1962 novel "The Assault," which was translated into English as "The Assault," published by Pantheon in 1985.

hide it," Mulisch said. "Because to know the essential thing about the war it is essential that you know nothing about the war. Today we can read the history books, watch the films, learn the facts. But at the same time we know far less because the main thing about being in the war was that we knew nothing. We listened to German radio but we couldn't believe it. We heard rumors that the Allies had landed but we couldn't be sure they were true. We read the underground newspapers issued by the Resistance and we wanted to believe they were true, but we couldn't be certain about their reports either."

Harry Mulisch was born in 1927 and grew up in Haarlem. "It was only much later when I began to tell people about my family that I began to realize how strange it was," Mulisch said. "My mother was Jewish and worked with anti-fascist organizations. My father was a prominent banker who collaborated with the Nazis. My mother's Jewish friends had to wear the yellow star. My father's associates wore the swastika of the Third Reich."

When Holland was liberated, Mulisch's father was jailed as a Nazi collaborator. "I visited my father every few weeks, and we maintained contact, but the war was a personal liberation for me, liberation from my father."

assaults Anton, how it stalks him and how he finally comes to terms with it and exorcises its ghosts. "The Assault" is by far Mulisch's most popular novel. In the Netherlands alone it has sold more than 350,000 copies. Though he intended no message, Mulisch stirred up painful memories. "Perhaps if we remember the atrocities of the past we may not be condemned to repeat them," he said.

"The man had one end of a pole several yards long attached to his waist, while the other end was fastened to the prow of a barge. Walking with heavy steps, he pushed against the pole and thus moved the boat through the water. At other times the man remained on deck and walked forward along the side of the barge, dragging the pole behind him through the water. When he reached the bow, he planted the sick sideways in the bottom of the canal, grasped it firmly, and walked backwards, so that he pushed the boat forward beneath his feet. This specially pleased Anton: a man walking backwards to push something forward, while staying in the same place himself."

PEOPLE

Congress Urged to Bar Coloring of Film Classics

Woody Allen and other film artists urged Congress on Tuesday to outlaw what they called mutilation of black-and-white movie classics by those who splash color on the familiar shades of Humphrey Bogart's dinner jacket and Ingrid Bergman's teary cheeks. Allen joined the actress Ginger Rogers and the directors Sydney Pollack, Miles Forman and Elliot Silverstein in asking a Senate subcommittee to help protect American film artists. Their testimony came as part of their lobbying to extend copyright laws to govern what can be done with old movies.

The Benedictine monk Stanley L. Jaki, a Roman Catholic priest and professor at Seton Hall University in South Orange, New Jersey, who was honored for his writings on science and faith with a \$365,200 award, said he was able to say so much because for a decade he could not speak and had time to think and write. The Hungarian-born theologian and physics professor on Tuesday received the 15th Templeton Prize for Progress in Religion at a ceremony in London. Jaki lost his voice in a surgical mishap in 1953 and did not regain it until about 10 years later.

Frank Sinatra has canceled a June 8 concert in Sweden after he was denied a tax exemption because he performed in South Africa, Swedish television reported. The singer would not be exempted from the 30 percent "artists' tax" because he is on a so-called United Nations "blacklist" for performing in South Africa in 1981 and 1983, according to the report.

Tom Cruise and the actress Mimi Rogers were married in a private ceremony last weekend. Cruise's publicist reported. Cruise, 26, star of "Top Gun," the biggest box-office movie of 1986, and "The Color of Money" married Rogers, 31, in New York City on Saturday.

Arthur Ochs Sulzberger, chairman and chief executive officer of The New York Times Co. and publisher of The New York Times, was elected chairman of the Metropolitan Museum of Art, succeeding J. Richardson Dilworth, who resigned last month because of illness.

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DE JERUSALEM ET DE PARIS... une grosse belle sur anniversary... HANU SIMON

MOON... the most beautiful thing... there is... you a happy birthday... you the... I want to see you in... August... LOVE KAREN and the family

HAPPY BIRTHDAY GEORGE... HAPPY BIRTHDAY GEORGE... HAPPY BIRTHDAY GEORGE... HAPPY BIRTHDAY GEORGE

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